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1 Thomas A. Loquvam  
2 Thomas L. Mumaw  
3 Melissa M. Krueger  
4 Amanda Ho  
5 Pinnacle West Capital Corporation  
6 400 North 5<sup>th</sup> Street, MS 8695  
7 Phoenix, Arizona 85004  
8 Tel: (602) 250-3630  
9 Fax: (602) 250-3393  
10 E-Mail: [Thomas.Loquvam@pinnaclewest.com](mailto:Thomas.Loquvam@pinnaclewest.com)  
11 [Thomas.Mumaw@pinnaclewest.com](mailto:Thomas.Mumaw@pinnaclewest.com)  
12 [Melissa.Krueger@pinnaclewest.com](mailto:Melissa.Krueger@pinnaclewest.com)  
13 [Amanda.Ho@pinnaclewest.com](mailto:Amanda.Ho@pinnaclewest.com)

14 Attorneys for Arizona Public Service Company

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Arizona Corporation Commission

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11 **BEFORE THE ARIZONA CORPORATION COMMISSION**

12 COMMISSIONERS

13 TOM FORESE, Chairman  
14 BOB BURNS  
15 DOUG LITTLE  
16 ANDY TOBIN  
17 BOYD DUNN

17 IN THE MATTER OF THE  
18 APPLICATION OF ARIZONA PUBLIC  
19 SERVICE COMPANY FOR A HEARING  
20 TO DETERMINE THE FAIR VALUE OF  
21 THE UTILITY PROPERTY OF THE  
22 COMPANY FOR RATEMAKING  
23 PURPOSES, TO FIX A JUST AND  
24 REASONABLE RATE OF RETURN  
25 THEREON, TO APPROVE RATE  
26 SCHEDULES DESIGNED TO DEVELOP  
27 SUCH RETURN.

23 IN THE MATTER OF FUEL AND  
24 PURCHASED POWER PROCUREMENT  
25 AUDITS FOR ARIZONA PUBLIC  
26 SERVICE COMPANY.

DOCKET NO. E-01345A-16-0036

**INITIAL POST-HEARING BRIEF OF  
ARIZONA PUBLIC SERVICE  
COMPANY**

DOCKET NO. E-01345A-16-0123

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1     **I. INTRODUCTION**

2           The Settlement Agreement is broadly supported by parties representing a  
3 universal range of interests, including Commission Staff, residential customers through  
4 RUCO, merchant generator representatives, large commercial and industrial customers,  
5 public schools, federal agencies, low income advocates, union workers, retirees, and all  
6 five separate groups representing solar interests. The Agreement includes a tremendous  
7 amount of customer benefits, and will also allow Arizona Public Service Company to  
8 continue providing high quality service and reliability during a three year rate case stay-  
9 out. This outcome resulted from many hours of intense, transparent, and robust  
10 negotiations between more than 40 parties with divergent interests. Ultimately, 29  
11 diverse parties signed the Agreement (Signing Parties), each determining that the  
12 Agreement, taken as a whole, is in the public interest.<sup>1</sup> As AURA witness Patrick Quinn  
13 stated, “[t]he fact that so many parties representing such varied interests were able to  
14 come together to reach consensus illustrates the balance, moderation, and compromise  
15 of the document.”<sup>2</sup> Even parties that did not sign the Agreement agreed that many  
16 aspects of the Agreement are in the public interest.<sup>3</sup>

17           The timing of the Settlement itself is in the public interest. There is little question  
18 that the electric utility industry is facing significant changes. Our society has begun to  
19 develop a multitude of distributed technologies that are changing how customers use,  
20 create, and even think of electricity. The regulatory framework must similarly change,  
21 and it is far better to begin that change collaboratively through negotiations, rather than  
22 in the binary, win/lose trap of litigation.

23           The Agreement reflects this needed collaboration, and offers creative solutions  
24 for initiating much needed regulatory change. The Agreement does so comprehensively  
25

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26  
27 <sup>1</sup> See Settlement Agreement at 4 and Exhibit B.

28 <sup>2</sup> See Quinn Settlement Direct Testimony at 3.

<sup>3</sup> See Tr. 1164:9-17 (Schlegel), *see also* Coffman Direct Settlement Testimony at 3.

1 in a manner that benefits APS customers and the State of Arizona. These benefits  
2 include:

- 3 • **Rate Stability.** A rate stability provision where APS agrees to not file a  
4 new general rate case prior to June 1, 2019;
- 5 • **Solar Peace.** Resolution of Solar Distributed Generation issues for the  
6 term of the Settlement Agreement;
- 7 • **Expanded Residential Rate Choice.** New updated rate designs with rate  
8 options for all customers with more off-peak hours and holidays for time-  
9 differentiated rates;
- 10 • **Customer Education and Transition Plan.** An educational plan and  
11 concerted outreach effort by APS on its various rate plans with transitional  
12 rates in place until May 1, 2018 to allow for customer education;
- 13 • **Low-Income Assistance.** Continuation of crisis bill assistance for low  
14 income customers;
- 15 • **Buy-Through Option for Large Non-Residential Customers.**  
16 Continuation of a buy-through rate for Industrial and large General Service  
17 customers;
- 18 • **Self-Build Moratorium.** A moratorium on new self-build generation until  
19 January 1, 2022 and through December 31, 2027 for construction of  
20 combined cycle generation units;
- 21 • **Experimental Technology Rate.** An experimental pilot technology rate  
22 initially available for up to 10,000 customers;
- 23 • **Solar for Low and Moderate Income.** A program to expand access to  
24 utility owned rooftop solar for low and moderate income Arizonans, Title I  
25 Schools, and rural governments;
- 26 • **School and Military Discounts.** Additional discounts for Schools and  
27 Military customers; and  
28

- **Value of Solar Challenges Withdrawn.** Agreement by Signing Parties to withdraw any appeals of the Commission's Value and Cost of Solar Decisions (Decision Nos. 75859 and 75932).<sup>4</sup>

Several of these benefits could not have or are unlikely to have resulted from litigation. Indeed, several of the Agreement's provisions required significant concessions that APS would have been unwilling to make outside of the settlement context and that could not be imposed upon APS absent its agreement. AIC witness Gary Yaquinto noted that "the Settlement Agreement was reached through a give-and-take consensus process, AIC believes that the outcome is balanced and produces a more efficient resolution compared to one accomplished through a fully litigated proceeding."<sup>5</sup> RUCO witness David Tenney testified that one reason why RUCO chose to support the Settlement in this case was "because fully litigated cases may have very likely resulted in worse conditions for consumers in certain areas."<sup>6</sup> Instead, differing perspectives were recognized through the months-long negotiations and parties worked collaboratively to develop creative solutions outlined in the Agreement.

The primary questions for the Commission are whether the rates set in the Agreement are fair, just, and reasonable for the service being provided; and whether the Agreement serves the public interest. The evidence presented in this case demonstrates that the answer to these questions is undeniably "yes." The Agreement has broad-ranging customer benefits and enables APS to continue to provide safe and reliable electric service while pursuing Arizona's energy goals. APS requests that the Agreement be approved in its entirety without change.

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<sup>4</sup> See generally Settlement Agreement.

<sup>5</sup> See Yaquinto Settlement Direct Testimony at 2-3.

<sup>6</sup> See Tr. 1093:1-4 (Tenney).



# **PART 1: SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST**

## **II. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED.**

All of the parties worked tirelessly and dedicated months of time and effort to produce a balanced agreement with numerous customer benefits and sufficient financial support for the Company. Under the Arizona Constitution, Article 15 Section 3, the Commission has the duty to set just and reasonable rates “for the convenience, comfort, and safety, and preservation of the health, of the employees and patrons” of regulated utilities. The Arizona Supreme Court has described this duty as the regulatory body’s charge to require “public utilities be operated in the public interest.”<sup>7</sup> Arizona law provides that “a rate should allow the company whose property is committed to public service to earn a ‘fair and reasonable reward’ while also being reasonable from the standpoint of the public interest.”<sup>8</sup> The public interest analysis is best viewed as a balancing test, and the Commission’s role is to weigh the need for a rate increase with the mitigations and identified customer benefits. RUCO witness Tenney acknowledged that “this Agreement satisfies the public interest . . . in that its benefits to the ratepayers outweigh the costs.”<sup>9</sup>

### **A. The Agreement is supported by many diverse stakeholders.**

ConservAmerica witness Paul Walker stated that “[a] good test of the public interest is whether parties with divergent interests support the outcome.”<sup>10</sup> This Settlement easily meets that standard. The Agreement is broadly supported by 29 parties representing a universal range of interests, including Commission Staff,<sup>11</sup> RUCO on

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<sup>7</sup> See *So. Pac. Co. v. Ariz. Corp. Comm’n*, 98 Ariz. 339, 342 (1965).

<sup>8</sup> See *City of Tucson v. Citizens Utilities Water Co.*, 17 Ariz.App 477, 480 (1972).

<sup>9</sup> See Tenney Settlement Direct Testimony at 5.

<sup>10</sup> See Walker Settlement Direct Testimony at 2.

<sup>11</sup> Tr. 1262:21-23 (Abinah).

1 behalf of residential customers,<sup>12</sup> representatives of merchant generators,<sup>13</sup> large  
2 commercial and industrial customers,<sup>14</sup> public schools,<sup>15</sup> federal agencies,<sup>16</sup> limited  
3 income advocates,<sup>17</sup> union workers,<sup>18</sup> utility shareholders,<sup>19</sup> retirees,<sup>20</sup> environment and  
4 conservation advocates,<sup>21</sup> and all five separate groups representing solar interests.<sup>22</sup> As  
5 Staff witness Ralph Smith testified, “virtually every perspective has been represented to  
6 some extent.”<sup>23</sup> Although the Signing Parties all had various interests and areas of  
7 concern, they all found the Agreement, taken as a whole, to be in the public interest.

8       This Agreement is noteworthy in that it has broad support by many different  
9 parties, including those that have historically chosen to litigate issues rather than  
10 compromise.<sup>24</sup> RUCO witness Tenney testified that “[t]he fact that the [C]ompany and  
11 the solar partners, for example, were able to reach an agreement on issues such as  
12 litigation of value of solar, ballot propositions, those things, to me, that’s a seminal  
13 moment and it is good for the people of Arizona.”<sup>25</sup>

14  
15  
16  
17 <sup>12</sup> Tr. 1088:15-19 (Tenney); *see also* Quinn Settlement Direct Testimony at 6.

18 <sup>13</sup> Tr. 76:24-77:14 (Arizona Competitive Power Alliance Opening Statement).

19 <sup>14</sup> *See* Higgins Settlement Direct Testimony at 2, Hendrix Settlement Direct Testimony at 2; *see also* Tr.  
20 44:23-45:24 (Kroger Opening Statement).

21 <sup>15</sup> Tr. 37:2-13 (Arizona School Board Association and the Arizona Association of School Business  
22 Officials Opening Statement).

23 <sup>16</sup> *See* Alderson Settlement Direct Testimony at 2 (“FEA is a signatory to this Agreement because we  
24 believe it is a reasonable compromise to many complex issues in this rate case.”).

25 <sup>17</sup> *See* Zwick Settlement Direct Testimony at 3.

26 <sup>18</sup> *See* Vandever Settlement Direct Testimony at 3.

27 <sup>19</sup> *See* Yaquinto Settlement Direct Testimony at 2 (“AIC supports the Settlement Agreement because it  
28 contains provisions that represent a reasonable compromise of the various parties’ positions and that  
reasonably benefit APS, its customers, and its shareholders.”).

<sup>20</sup> Tr. 59:17-21 (Sun City Homeowners Association Opening Statement); Tr. 60:21-61:5 (PORA of Sun  
City West Opening Statement).

<sup>21</sup> Tr. 36:23-25 (Western Resource Advocates Opening Statement); *see also* Walker Settlement Direct  
Testimony at 2.

<sup>22</sup> *See* Seitz Settlement Direct Testimony at 3; Kobor Settlement Direct Testimony at 1; Heidell  
Settlement Direct Testimony at 1; Birmingham Settlement Direct Testimony at 4; *see also* Settlement  
Agreement at 4.

<sup>23</sup> Tr. 1038:12-13 (Smith).

<sup>24</sup> Tr. 39:8-15 (Energy Freedom Coalition of America Opening Statement).

<sup>25</sup> Tr. 1096:20-24 (Tenney).



1           **B.     The positive benefits to customers that will result from the Agreement**  
2           **balance the proposed rate increase.**

3           The Agreement resolves almost all of the issues raised in this proceeding and  
4 carefully balances the interests of utility customers and utility shareholders. The  
5 Agreement positions APS to meet customer needs and interests in light of the electric  
6 industry's rapid change and provides tangible benefits to APS customers with as little  
7 financial impact to them as possible. Kevin Higgins, representing Freeport Minerals  
8 Corporation and Arizonans for Electric Choice and Competition, Calpine Energy  
9 Solutions, Constellation NewEnergy LLC, and Direct Energy Business LLC  
10 (collectively AECC and IPPs), stated that "the Settlement Agreement constitutes a  
11 reasonable resolution to the overall case by providing meaningful protections and  
12 benefits to customers, while giving APS a reasonable opportunity to earn a fair return on  
13 its investment."<sup>26</sup>

14           It has been five years since the conclusion of APS's last rate case.<sup>27</sup> The  
15 Settlement in the last rate case provided a framework for stability and rate gradualism.  
16 This Agreement builds on that framework and provides the opportunity for continued  
17 stability and continued rate gradualism for customers. In addition, customers will have  
18 the opportunity to exert greater control over their energy use and their monthly bills. The  
19 Agreement strikes the right balance between customer and Company benefits and is in  
20 the public interest.

21           **1.     The Agreement provides rate stability for customers.**

22           Under Section II of the Agreement, APS agreed to a three year stay-out such that  
23 APS will not file its next general rate case prior to June 1, 2019 and the test year end  
24 date for the base rate filing will not be earlier than December 31, 2018.<sup>28</sup> A stay-out  
25 provision of this length provides significant benefits to all customers.<sup>29</sup> Wal-Mart  
26 witness Chris Hendrix recognized the magnitude of APS accepting a rate stability

27 <sup>26</sup> See Higgins Settlement Direct Testimony at 4.

28 <sup>27</sup> See Decision No. 73183 (May 24, 2012).

<sup>28</sup> See Settlement Agreement at Section 2.1.

<sup>29</sup> Tr. 311:7-10 (Lockwood), *see also* Abinah Settlement Direct Testimony at 7.



1 provision stating that “[t]he primary benefit that all customers, including commercial  
2 customers, will receive from the settlement is that APS may not file a new base rate case  
3 until at least June 1, 2019.”<sup>30</sup>

4 AECC and IPPs witness Higgins agreed, testifying that he participates in general  
5 rate cases around the country and that in many jurisdictions, rate cases have become  
6 annual events.<sup>31</sup> He further stated that “[a] stay-out in excess of two years conveys a  
7 significant benefit to customers in terms of rate stability and rate certainty.”<sup>32</sup> A stay-out  
8 provision requires voluntary acceptance by APS and would have been unlikely in a fully  
9 litigated case. Even parties that did not sign the Agreement recognized that settlements  
10 can produce outcomes and provide benefits that could not be obtained through  
11 litigation.<sup>33</sup>

## 12 2. The Settlement begins to modernize rates.

13 Importantly, the Agreement also implements modern rate structures that offer  
14 more choice and opportunities for customers to save and incorporate new technologies.<sup>34</sup>  
15 The electric utility industry is rapidly changing and there is a need to create an electric  
16 grid that enables customer choice and opportunities for new technologies, while  
17 recognizing changing resources and load patterns.<sup>35</sup> The Agreement begins to fairly  
18 assign grid costs to customers and modernize rate designs to account for rapidly  
19 evolving customer needs.<sup>36</sup> IBEW witness David Vandever testified that the Agreement:

20 modernizes an archaic, economically inefficient, ineffective, and unfair  
21 pricing structure. The Agreement allows for new updated rate designs with  
22 rate options for all customers and eliminates the misalignment of rates and  
23 costs.<sup>37</sup>

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24 <sup>30</sup> See Hendrix Settlement Direct Testimony at 2; *see also* Tr. 311:7-10 (Lockwood).

25 <sup>31</sup> See Higgins Settlement Testimony at 4-5.

26 <sup>32</sup> *Id* at 5.

27 <sup>33</sup> Tr. 1165:11-17 (Schlegel).

28 <sup>34</sup> See Lockwood Settlement Direct Testimony at 2-3.

<sup>35</sup> See Tr. 308:6-25 (Lockwood); Tr. 1036:12-1037:20 (Smith).

<sup>36</sup> See Tr. 309:1-25 (Lockwood).

<sup>37</sup> See Vandever Settlement Direct Testimony at 4.

1 Additionally, ConservAmerica witness Walker testified, the settlement adopts a  
2 modernized rate design and will reduce costs and emissions while increasing fairness.<sup>38</sup>  
3 The newly designed rates proposed in the Agreement are a positive step towards  
4 necessary rate modernization and provide additional benefits to customers.<sup>39</sup>

5 **a) The Agreement preserves customer choice.**

6 Residential customers will continue to have rate options and will have the  
7 opportunity to select between three, flat two-part rates, a TOU energy rate, and two,  
8 TOU demand rates.<sup>40</sup> APS will provide customers with information on the various rate  
9 options that would minimize their bill.<sup>41</sup> Customers that do not select a different rate will  
10 be transitioned to the updated rate plan most like their existing rate plan on or before  
11 May 1, 2018.<sup>42</sup> Additionally, at least 90 days prior to transitioning customers who have  
12 not selected a rate, APS will provide a report to the ACC with the total number of  
13 customers who have not made a selection.<sup>43</sup>

14 APS's original application removed all volumetric two-part rate options except  
15 for the smallest customers (600 kWh and smaller), and the Company still maintains that  
16 three-part rates better reflect costs and are appropriate for all customers.<sup>44</sup> However, the  
17 Agreement provides that volumetric two-part rates will remain as options after May 1,  
18 2018.<sup>45</sup> Rate R-XS will be available to all qualifying customers that average less than  
19 600 kWh per month, and R-Basic will be available to new customers after 90 days of  
20 initial service on a TOU energy or TOU demand rate.<sup>46</sup> Even non-settling parties who  
21 object to the 90-day provision, which is discussed in more detail in Part VIII, agree that  
22

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23 <sup>38</sup> See Walker Settlement Direct Testimony at 3-4.

24 <sup>39</sup> Tr. 305:16-20 (Lockwood); Tr. 412:8-13 (Miessner); *see also* Yaquinto Settlement Direct Testimony  
at 8.

25 <sup>40</sup> Tr. 996:22-997:8 (Smith); *see also* Quinn Settlement Direct Testimony at 5-6; Settlement Agreement  
at Section 17.

26 <sup>41</sup> Tr. 312:3-314:4 (Lockwood).

27 <sup>42</sup> *See* Settlement Agreement at Paragraph 26.1.

28 <sup>43</sup> *Id.*

<sup>44</sup> Miessner Direct Testimony at 26.

<sup>45</sup> *See* Settlement Agreement at Paragraph 19.1.

<sup>46</sup> *Id.*

1 the Settlement provides customers with a variety of rate options to choose from,  
2 including two-part rates.<sup>47</sup>

3 These rate provisions are another example of how settlements provide the  
4 opportunity for parties to make concessions and compromise to produce positive results  
5 that would have been unlikely in a litigated case. Even SWEEP witness Schlegel  
6 recognized this point, stating, "I agree that it's a concession to, of APS to allow the two-  
7 part rate to exist, both for existing customers and for new customers after the 90-day  
8 waiting period, relative to their initial application."<sup>48</sup>

9 **b) Customers will benefit from additional off-peak hours**  
10 **and holidays for time-differentiated rates.**

11 The Agreement increases the amount of off-peak hours and holidays for TOU  
12 rates. Rates R-TOU-E, R-2, R-3, and R-Tech have on-peak hours of 3 p.m. to 8 p.m.  
13 weekdays with 10 exempt holidays.<sup>49</sup> In addition, R-TOU-E also adds a super off-peak  
14 period from 10 a.m. to 3 p.m. weekdays during the winter months.<sup>50</sup> TOU rates  
15 encourage more usage when energy supply is highest and prices are the lowest, and less  
16 use when energy supply is lower and prices are higher.<sup>51</sup> APS witness Charles Miessner  
17 testified:

18 the [new TOU rate has] fewer on-peak hours that are aligned with APS's  
19 highest peaks and costs. This will help focus demand reduction to when it  
is most needed and provide more off-peak hours for customers.<sup>52</sup>

20 Although a few parties have taken issue with the new TOU window, which is  
21 discussed later in this brief, a majority of the parties support this positive change.<sup>53</sup> The  
22

23  
24 <sup>47</sup> Tr. 716:9-16 (Coffman).

25 <sup>48</sup> Tr. 1171:23-1172:8 (Schlegel).

26 <sup>49</sup> See Settlement Agreement at Paragraph 17.8 and Appendix F; *see also* Miessner Settlement Direct  
Testimony at 10.

27 <sup>50</sup> Settlement Agreement at Paragraph 17.4.

28 <sup>51</sup> See Miessner Settlement Direct Testimony at 11.

<sup>52</sup> See Tr. 341:17-21 (Miessner).

<sup>53</sup> See *e.g.*, Birmingham Settlement Direct Testimony at 6; Kobor Settlement Direct Testimony at 5;  
Vandever Settlement Direct Testimony at 4.



1 new TOU hours will benefit customers and better align the system peak with energy  
2 usage through proper price signals.<sup>54</sup>

3 **c) The Agreement creates a pilot technology rate called R-**  
4 **Tech for 10,000 customers.**

5 R-Tech is a TOU rate with on-peak and off-peak demand and energy charges  
6 designed to incent customers to adopt energy technologies to manage their demand and  
7 help reduce APS's system peak to customers' benefit.<sup>55</sup> The rate is available for up to  
8 10,000 customers who adopt certain home energy technologies, including (primary  
9 technologies) solar, storage, electric vehicle, and (secondary technologies) devices with  
10 variable speed motors, grid interactive water heating, smart thermostats, and automated  
11 load controllers.<sup>56</sup> To qualify, the customer must purchase two or more primary  
12 technologies within 90 days prior to enrollment, or purchase one primary technology  
13 within that timeframe and also have two secondary technologies installed.<sup>57</sup> This pilot  
14 rate will test the ability and desire of participating residential customers to reduce on-  
15 peak energy and demand usage through multiple behind-the-meter technologies.<sup>58</sup>

16 **d) The Agreement provides for customer education and**  
17 **outreach to support modernized rates.**

18 APS is committed to educating customers on the various rate plans and options  
19 outlined in the Agreement. Section XXVII of the Agreement requires APS to make a  
20 one-time allocation of \$5 million from the collected, but unspent, Demand Side  
21 Management Adjustor Clause (DSMAC) funds for education and to help customers  
22 manage new rates and rate options, including services and tools to help customers  
23 manage their energy costs.<sup>59</sup> RUCO witness Tenney testified that this provision was  
24 "extremely important as the trend moves towards more modernized rates."<sup>60</sup>

25 <sup>54</sup> Tr. 310:4-11 (Lockwood).

26 <sup>55</sup> See Miessner Settlement Direct Testimony at 11; Heidell Settlement Direct Testimony at 7; Tenney  
27 Settlement Direct Testimony at 4.

28 <sup>56</sup> See Settlement Agreement Appendix F.

<sup>57</sup> See Settlement Agreement at Paragraph 17.7.

<sup>58</sup> See Abinah Settlement Direct Testimony at 13.

<sup>59</sup> See Settlement Agreement at Section 27.

<sup>60</sup> See Tenney Settlement Direct Testimony at 8-9.

1           Additionally, APS is committed to filing an outreach and education plan and will  
2 provide stakeholders with an opportunity for review and comment on the draft plan prior  
3 to finalizing it.<sup>61</sup> APS witness Lockwood testified that “[i]t is our full intent to make sure  
4 that customers are well informed about all of their options . . . I can assure you we are  
5 committed to making sure that customers are aware and understand their options.”<sup>62</sup>  
6 APS will notify customers through a variety of different channels and encourage  
7 customers to choose the rate that works best for them.<sup>63</sup> Some of the available  
8 communication channels include: aps.com, social media, the APS customer care center,  
9 IVR phone system, and email.<sup>64</sup>

10                               **3.    APS’s commercial and industrial customers benefit from the**  
11                               **Agreement.**

12           The Agreement provides for a number of new or modified rate options for  
13 commercial and industrial customers.<sup>65</sup> These include: (1) additional money-saving  
14 options for commercial customers; (2) a discount for military and school customers; and  
15 (3) the continuation of a buy-through rate for industrial customers.<sup>66</sup>

16                               **a)    The Agreement provides commercial customers**  
17                               **additional money-saving options.**

18           Section XX of the Agreement adopts an economic development rate, extra high  
19 load factor rate, and an aggregation feature benefitting commercial customers.<sup>67</sup>  
20 Additionally, APS has agreed to redesign E-32 L in a revenue neutral manner.<sup>68</sup>

- 21                       • **Economic Development Rate:** Qualifying new customer sites and  
22                       significant net expansions for existing sites served under extra-large  
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<sup>61</sup> See Lockwood Settlement Rebuttal Testimony at 6.

25                               <sup>62</sup> Tr. 293:10-15 (Lockwood).

26                               <sup>63</sup> Tr. 251:9-21 (Lockwood).

27                               <sup>64</sup> Tr. 312:3-314:4 (Lockwood).

28                               <sup>65</sup> Tr. 305:11-15 (Lockwood).

<sup>66</sup> See Tr. 314:21-315:21 (Lockwood).

<sup>67</sup> See Settlement Agreement at Section 20.

<sup>68</sup> See Settlement Agreement at Paragraph 21.1.

1 general service rates E-34 and E-35 will benefit from specially crafted  
2 pricing discounts.<sup>69</sup>

- 3 • **Extra High Load Factor Rate:** Qualifying customers with an average  
4 load factor above 92% and 5,000 kW will be classified separately from a  
5 cost of service standpoint.<sup>70</sup> Customers 15,000 kW and larger will have the  
6 additional benefit of qualifying for transmission level service through a  
7 contribution in aid of construction (CIAC) to APS, rather than outright  
8 purchase of the facilities.<sup>71</sup>
- 9 • **Aggregation Feature:** E-32 L and E-32 L TOU customers with multiple  
10 sites that individually do not qualify for the extra-large rates and the  
11 associated lower costs, can aggregate and take advantage of a \$0.0024 per  
12 kWh discount in the unbundled generation rate.<sup>72</sup>
- 13 • **E-32 L Rate Design:** APS will redesign E-32 L in a revenue neutral  
14 manner to recover an additional amount of \$1.36 per kW in the unbundled  
15 generation charges.<sup>73</sup>

16 b) **Military and public school customers will qualify for an**  
17 **additional discount.**

18 Section XXIV of the Agreement provides that the unbundled delivery charge for  
19 service at military-primary voltage under rates E-34 and E-35 will be reduced to a level  
20 that results in any applicable military customer getting a net impact bill increase equal to  
21 the average for all retail customers.<sup>74</sup> Additionally, Section XXII states that all public  
22 schools and public school districts (including charter schools) will be eligible for a new  
23 rate rider. And if a public school or public school district applies for service under this  
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25 <sup>69</sup> See Snook Direct Testimony at 47.

26 <sup>70</sup> *Id.* at 46.

27 <sup>71</sup> *Id.*

28 <sup>72</sup> See Miessner Direct Testimony at 53.

<sup>73</sup> See Settlement Agreement at Paragraph 21.1.

<sup>74</sup> See Settlement Agreement at Paragraph 24.1.



1 rate rider, they will receive a discount of \$0.0024/kWh.<sup>75</sup> These provisions will benefit  
2 APS's military and public school customers.

3 **c) The Agreement continues a buy-through rate for**  
4 **industrial customers.**

5 Industrial customers will benefit from the continuation of a buy-through program  
6 in the Agreement in a manner that seeks to hold APS and other customers harmless. This  
7 provision is an example of how settlement provides parties the opportunity to work  
8 collectively to resolve issues and make concessions from their litigated positions.

9 AG-1 was created in APS's last rate case settlement as an experimental program  
10 and APS originally proposed to not renew the program.<sup>76</sup> In contrast, other parties  
11 proposed to fully integrate the program as a permanent rate offering in their direct  
12 cases.<sup>77</sup> Through settlement, the parties were able to find a satisfactory solution that  
13 meets the proponents needs while addressing APS's concerns and protecting other  
14 customers. In support of the Agreement and the AG-X program in particular, AECC and  
15 IPPs witness Higgins explained that, "[w]hile the Settlement Agreement does not go as  
16 far as I had advocated in my direct testimony . . . the Settlement Agreement does not  
17 design the AG-X program to be temporary,"<sup>78</sup> The Company committed to continue the  
18 program in its next general rate case,<sup>79</sup> and AECC and IPPs witness Higgins testified  
19 that "it is important and in the public interest for this program to continue into the  
20 future."<sup>80</sup>

21 The Agreement adopts a number of significant changes from the current AG-1  
22 program, including adjustments to several fees. These changes enabled APS to support  
23 the continuation of an updated buy-through program.<sup>81</sup> AECC and IPPs witness Higgins  
24 testified that "[w]hile these increases in charges erode some of benefits from customer

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25 <sup>75</sup> *Id.* at Paragraph 22.1.

26 <sup>76</sup> *See* Snook Direct Testimony at 43-46.

27 <sup>77</sup> *See* Higgins Direct Testimony at 9-10.

28 <sup>78</sup> *See* Higgins Settlement Direct Testimony at 9.

<sup>79</sup> Tr. 820:5-15 (Snook).

<sup>80</sup> *See* Higgins Settlement Direct Testimony at 8.

<sup>81</sup> Tr. 820:16-821:22 (Snook).

1 participation in this program, I believe that overall this result is acceptable because it  
2 allows for the continuation of a successful program that is likely to continue to provide  
3 customer benefits despite these higher charges.”<sup>82</sup>

4                   **4. The Agreement continues to protect APS’s most vulnerable**  
5                   **customers.**

6           The Agreement recognizes the need to provide assistance to limited income  
7 customers in APS’s service territory. The Agreement contains three provisions designed  
8 to help the most impoverished in our community: (1) an increase to emergency bill  
9 assistance; (2) simplification of the limited income discount; and (3) the creation of a  
10 utility-owned DG program targeted at limited and moderate income Arizonans referred  
11 to as AZ Sun II. Many parties, signing and non-signing alike, agree that these provisions  
12 of the Agreement are in the public interest and provide benefits to many of APS’s most  
13 vulnerable customers.<sup>83</sup>

14                   **a) Limited income customers benefit from an increase in**  
15                   **crisis bill funding.**

16           Section XXIX of the Agreement provides that APS will fund \$1.25 million  
17 annually toward the crisis bill program to assist customers whose incomes are less than  
18 or equal to 200% of the Federal Poverty Income Guidelines. On behalf of limited  
19 income customers, ACAA witness Cynthia Zwick, supported the Agreement, stating that  
20 “[b]y committing to fund bill assistance at \$1.25 million per year, the settlement  
21 provides for assistance to the most vulnerable, ensuring that community agencies have  
22 enough assistance funds to meet the need of the community.”<sup>84</sup>

23                   **b) Limited income bill discounts will be simplified.**

24           Additionally, the Agreement simplifies the limited income bill discounts to a  
25 standard percentage discount while keeping the average discount per customer the same.  
26 APS’s E-3 Energy Support Program for limited income customers will be revised to

27 <sup>82</sup> See Higgins Settlement Direct Testimony at 8.

28 <sup>83</sup> See Tr. 306:3-6 (Lockwood); Tr. 1087:22-24 (Tenney); Tr. 709:1-18 (Coffman); *see also* Abinah  
Settlement Direct Testimony at 18.

<sup>84</sup> See Zwick Settlement Direct Testimony at 2.

1 provide eligible customers with a flat 25% bill discount, and the E-4 Medical Support  
2 Program for limited income customers who have life sustaining medical equipment will  
3 be revised to provide eligible customers with a flat 35% bill discount.<sup>85</sup> ACAA witness  
4 Zwick further stated that “[b]y increasing the low-income discount and low-income  
5 medical discount to 25% and 35% of a customer’s bill, respectively, the energy burden  
6 of many low-income customers will be reduced to a more affordable level.”<sup>86</sup>

7 **c) AZ Sun II will expand rooftop solar access for limited**  
8 **and moderate income Arizonans.**

9 A number of parties voiced interest in securing broader access and opportunities  
10 for customers to adopt solar.<sup>87</sup> AZ Sun II is another example of how settlements can  
11 foster creative solutions that would not result from a fully litigated proceeding. The  
12 parties created a three-year program called AZ Sun II to serve low and moderate income  
13 residential customers and the non-profits that serve them, as well as Title I schools and  
14 rural government customers.<sup>88</sup> These customers will be eligible to participate in the  
15 program and obtain utility-owned and operated photovoltaic solar systems on their  
16 property.<sup>89</sup> Importantly, ACAA witness Zwick supports the AZ Sun II program, stating  
17 that it “will provide the option to “go solar” for thousands of low-income customers who  
18 never previously had the option.”<sup>90</sup> And ASDA witness Sean Seitz agreed that “the AZ  
19 Sun II program will allow for more customers, including low income, to have access to  
20 solar.”<sup>91</sup>

21 The Agreement provides that APS will spend no less than \$10 million per year,  
22 and no more than \$15 million per year, in direct capital costs.<sup>92</sup> This program will help  
23 expand access to solar for low and moderate income customers. Specifically, Section

24 <sup>85</sup> See Settlement Agreement at Section XXIX.

25 <sup>86</sup> See Zwick Settlement Direct Testimony at 2.

26 <sup>87</sup> See Lockwood Settlement Direct Testimony at 12; Walker Direct Testimony at 9-10.

27 <sup>88</sup> See Settlement Agreement at Section XXVIII.

28 <sup>89</sup> See Lockwood Settlement Direct Testimony at 12.

<sup>90</sup> See Zwick Settlement Direct Testimony at 3.

<sup>91</sup> See Seitz Settlement Direct Testimony at 2.

<sup>92</sup> See Settlement Agreement at 25.



1 28.2d requires that at least 65% of the annual program will be dedicated to residential  
2 installations for low income households with incomes at or below 200% of the federal  
3 poverty level.<sup>93</sup> And at the end of nine months of each program year, any unspent funds  
4 dedicated to low income residential installations can be used for other eligible  
5 customers.<sup>94</sup>

6 All reasonable and prudent costs incurred by APS pursuant to this program will  
7 be recoverable through the Renewable Energy Adjustment Clause until the next rate  
8 case.<sup>95</sup> Reasonable and prudent costs include: O&M expenses, property taxes, marketing  
9 and advertising expenses, and the capital carrying costs of any capital investment by  
10 APS through this program.<sup>96</sup> The Commission retains the authority to review APS's  
11 expenses under this program for prudence in each annual REST docket.<sup>97</sup> In addition, if  
12 any of the solar systems are included in APS's rate base for its next rate case, those  
13 inclusions will be subject to a prudence review.<sup>98</sup>

14 The Settlement provides that if the program is approved in this case, APS need  
15 not seek further approval in the REST docket for the program or the spending authorized  
16 in this rate case.<sup>99</sup> Lastly, APS agreed not to implement any additional utility-owned  
17 residential solar distribution generation programs prior to APS's next general rate case  
18 beyond AZ Sun II.<sup>100</sup> This program is a creative and reasonable outcome to help meet  
19 the needs and interests of various parties in this case. It provides benefits for a segment  
20 of the Company's customer base that has been historically underserved regarding solar  
21 options.<sup>101</sup>

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24 <sup>93</sup> See Lockwood Settlement Direct Testimony at 12.

25 <sup>94</sup> *Id.*

26 <sup>95</sup> See Settlement Agreement at Paragraph 28.2.

27 <sup>96</sup> *Id.*

28 <sup>97</sup> *Id.*; Tr. 1268:24-1269:5 (Abinah).

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.* Settlement Agreement at Paragraph 28.7.

<sup>101</sup> Tr. 309:12-16 (Lockwood); see also Walker Settlement Direct Testimony at 12.

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**5. The Agreement resolves all residential solar issues.**

Staff witness Abinah stated that “[a] major and important part of the Agreement is the resolution of many of these contentious issues related to DG solar for the term of the Agreement.”<sup>102</sup> The Agreement provides for grandfathering for current DG customers. And consistent with the Commission’s ruling in the Value and Cost of Solar Decision, the Agreement proposes an RCP export rate and Plan of Administration for new DG customers.<sup>103</sup> The Agreement preserves customer choice, and new DG customers will have the opportunity to choose from various rate options including a TOU rate.<sup>104</sup> In addition, the Agreement provides for the withdrawal of challenges to the Commission’s recent Decisions concerning the value and cost of DG.

Staff testified that these provisions, in concert, have tremendous benefit in that they will significantly reduce the time and resources of all parties (including the Commission) that would otherwise be spent on litigation, and will instead allow parties to focus their resources on serving consumers and other prospective policy matters.<sup>105</sup> RUCO witness Tenney also stated that, “[f]or the foreseeable future, the prospects of legal challenges, legislation, and voter initiatives is set aside which hopefully leads to a more collaborative relationship and sustainable future, moving forward.”<sup>106</sup> Again, through settlement, parties were able to reach a compromised outcome that was acceptable to a majority of the parties, notably including all five parties representing solar interests.

**a) Current DG customers will benefit from grandfathering.**

DG customers whose systems are interconnected prior to the rate effective date and those that submit a completed interconnection application to APS before the rate effective date adopted in this case will be grandfathered for a period of twenty years

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<sup>102</sup> See Abinah Settlement Direct Testimony at 20.

<sup>103</sup> Tr. 1270:2-9 (Abinah).

<sup>104</sup> See Heidell Settlement Direct Testimony at 2.

<sup>105</sup> See Abinah Settlement Direct Testimony at 21.

<sup>106</sup> See Tenney Settlement Direct Testimony at 9.

1 under the current net metering tariff and rate design.<sup>107</sup> The twenty-year period begins  
2 on the date the system is first interconnected with APS's system. EFCA witness Heidell  
3 explained that by grandfathering current DG customers, and allowing those customers to  
4 take service under the current net metering tariff, it "preserves the economics that  
5 customers thought they would be subject to when they made long term investments in  
6 distributed generation."<sup>108</sup>

7 **b) The Agreement preserves multiple rate design options**  
8 **for new DG customers.**

9 Under the Agreement, new rooftop solar customers retain the ability to choose  
10 from all proposed TOU and demand rates.<sup>109</sup> This was a significant concession by the  
11 Company from its originally filed position.<sup>110</sup> APS still maintains that demand-based  
12 rates better reflect the cost of service, help reduce intra-class subsidies, and provide  
13 incentives for new behind-the-meter technologies for customers. In addition, demand  
14 rates provide accurate price signals for incenting how and when customers use  
15 electricity, and provide opportunities for customers to save on their bill without shifting  
16 costs to other customers.<sup>111</sup> However, in the spirit of compromise, the Company  
17 accepted a more moderate rate design change where new DG customers will retain the  
18 opportunity to choose from a TOU rate with a Grid Access Charge.<sup>112</sup>

19 The Agreement adopts a Grid Access Charge of \$0.93 per kilowatt of direct  
20 current (kW-dc) per month.<sup>113</sup> This fee was calibrated to result in the settled-on  
21 consumption offset rate described in Paragraph 18.2 of the Agreement:

22 [t]he self-consumption offset rate for TOU-E [is] \$0.105/kWh, which is  
23 inclusive of the Grid Access Charge, but exclusive of taxes and adjustors.  
24 This is an approximately \$0.120/kWh offset rate after these adjustments.  
The offset rate is based on the load profile and production profile of APS  
customers with DG during the test year. Individual customer offsets will

25 <sup>107</sup> See Settlement Agreement at Paragraphs 18.5 and 18.6.

26 <sup>108</sup> See Heidell Settlement Direct Testimony at 2.

27 <sup>109</sup> See Lockwood Settlement Direct Testimony at 9; *see also* Abinah Settlement Direct Testimony at 13.

28 <sup>110</sup> See Lockwood Direct Testimony at 20-21; Miessner Direct Testimony at 14-17.

<sup>111</sup> See Miessner Direct Testimony at 16.

<sup>112</sup> Tr. 309:17-25 (Lockwood); *see also* Miessner Settlement Direct Testimony at 13.

<sup>113</sup> See Settlement Agreement at Paragraph 18.1, *see also* Settlement Agreement Appendix F.



1 vary based on individual usage patterns and DG system size, orientation,  
2 and production.<sup>114</sup>

3 This particular provision was extensively negotiated by the parties. In the end, all  
4 parties, including Staff, RUCO, and all five solar parties, agreed on it.<sup>115</sup> Vote Solar  
5 witness Briana Kobor stated that “when considered with the balance of issues addressed  
6 by the Proposed Settlement Agreement, including the agreed upon offset rate, I find the  
7 monthly \$0.93/kW-dc charge that results in a self-consumption offset rate of  
8 \$0.105/kWh [to be] a reasonable compromise.”<sup>116</sup> Further, EFCA witness Heidell  
9 recognized that the Agreement’s “treatment of new rooftop solar customers provides  
10 options.”<sup>117</sup>

11 **c) The Agreement fully implements Decision Nos. 75859  
12 and 75932 regarding the Value and Cost of Solar.**

13 The Agreement implements the Resource Comparison Proxy Rate (RCP) for  
14 exported energy established in the Commission’s Value and Cost of Solar Decisions  
15 (Decision Nos. 75859 and 75932) for new residential DG customers.<sup>118</sup> Existing DG  
16 customers will be grandfathered. New residential DG customers who first apply for  
17 interconnection after the rate effective date will move away from net metering and begin  
18 receiving compensation for the exported energy at the negotiated first year rate of  
19 \$0.129/kWh, which is inclusive of undifferentiated transmission, distribution and loss  
20 components.<sup>119</sup>

21 Importantly, all parties, including EFCA, agreed that the “first year export rate is  
22 the product of settlement negotiations and does not create any precedent, imply any  
23 change to the structure of or detail in the Resource Comparison Proxy, or otherwise

24 <sup>114</sup> See Settlement Agreement at Paragraph 18.2.

25 <sup>115</sup> See Kobor Settlement Direct Testimony at 6; Birmingham Settlement Direct Testimony at 6; Heidell  
26 Settlement Direct Testimony at 5.

27 <sup>116</sup> See Kobor Settlement Direct Testimony at 6.

28 <sup>117</sup> See Heidell Settlement Direct Testimony at 2.

<sup>118</sup> See Settlement Agreement at 19-20.

<sup>119</sup> See Settlement Agreement at Paragraph 18.3; Lockwood Settlement Direct Testimony at 10; Heidell  
Settlement Direct Testimony at 3.

1 change any aspect of Decision No. 75859.”<sup>120</sup> Additionally, the RCP Plan of  
2 Administration specifically addresses the nature of the \$0.02 kWh adjustment, stating  
3 that the “amount is negotiated, does not reflect an actual calculation of system  
4 conditions, and establishes no precedent for any future RCP or avoided cost  
5 calculations.”<sup>121</sup> RUCO witness Tenney described the balance struck by this  
6 compromise, as “[a] sustainable path forward was developed to lessen the impact on  
7 non-solar customers while still providing enough incentive for the solar industry to  
8 continue operating.”<sup>122</sup>

9 **d) The Agreement provides for the withdrawal of legal**  
10 **challenges to Decision Nos. 75859 and 75932.**

11 Upon final approval of the Settlement Agreement (which occurs when the  
12 Commission issues a decision adopting the Settlement Agreement with no material  
13 changes and that decision is no longer subject to appeal), all Signing Parties agree to  
14 promptly take all necessary actions to (i) withdraw any challenge to Decision Nos.  
15 75859 and 75932 they have filed, and (ii) refrain from pursuing any legal challenge to  
16 Decision Nos. 75859 and 75932 in any forum.<sup>123</sup> This is another example of a provision  
17 in the Agreement that provides benefits that would not be available to the Commission if  
18 this case were fully litigated.<sup>124</sup> RUCO witness Tenney testified that RUCO was  
19 particularly interested in the agreement by the solar parties to withdraw any appeals of  
20 the Commission’s value of solar decisions and believed that it is “something that is good  
21 for all the residents of Arizona.”<sup>125</sup>

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25 <sup>120</sup> See Heidell Settlement Direct Testimony at 5-6; Lockwood Settlement Rebuttal Testimony at 3; see  
also Settlement Agreement at Paragraph 18.4.

26 <sup>121</sup> See RCP Plan of Administration at 6.

27 <sup>122</sup> See Tenney Settlement Direct Testimony at 9.

28 <sup>123</sup> See Settlement Agreement at Section 35.

<sup>124</sup> See Tr. 306:14-307:15 (Lockwood).

<sup>125</sup> See Tr. 1088:9-14 (Tenney).

1                                   e)     **The Joint Solar Parties Cooperation Agreement will**  
2    **create a period of stability and collaboration.**

3           Lastly, through a separate confidential agreement, APS, solar industry  
4 representatives, and solar advocates have agreed to refrain from undermining the  
5 Agreement through ballot initiatives, legislation, or other advocacy.<sup>126</sup> Due to the  
6 confidential nature of the agreement, this brief will not expand on the details of the  
7 Cooperation Agreement. However, the Joint Solar Cooperation Agreement is intended to  
8 provide a period of stability during which parties can begin addressing important policy  
9 issues through collaboration, rather than litigation.

10                               6.     **The Agreement Supports APS financially during a three year**  
11                                       **stay-out.**

12           The Agreement provides APS the opportunity to maintain adequate financial  
13 health during the agreed upon stay-out period, allowing it to continue to provide high  
14 quality service to customers and achieve Arizona's energy goals. AIC witness Yaquinto  
15 recognized that "[t]here are a number of provisions contained in the Settlement  
16 Agreement that will enhance and support the financial health of APS."<sup>127</sup> And APS  
17 witness Lockwood testified that the settlement brings a number of benefits, starting with  
18 providing the company the financial stability to continue to invest on behalf of our  
19 customers and provide safe and reliable service.<sup>128</sup>

20           The economic and financial aspects of the Agreement include: (1) a modest  
21 revenue requirement increase; (2) an updated depreciation rate and expense; (3) a cost of  
22 capital package; (4) a deferral mechanism to account for expenses associated with  
23 installing Selective Catalytic Reduction (SCR) equipment at the Four Corners Power  
24 Plant and a step-increase to mitigate the respective financial impact; (5) a deferral  
25 mechanism to account for the expenses associated with the Ocotillo Modernization  
26 Project (OMP); (6) a deferral mechanism that protects APS and customers from changes  
27 to APS's property tax expense; (7) modifications to the Company's Lost Fixed Cost

27 <sup>126</sup> See Lockwood Settlement Direct Testimony at 3.

28 <sup>127</sup> See Yaquinto Settlement Direct Testimony at 3.

<sup>128</sup> Tr. 309:3-9 (Lockwood).



1 Recovery (LFCR), Environmental Improvement Surcharge (EIS) and Transmission Cost  
2 Adjustment (TCA); and, (8) revisions to the PSA adjustor rate.

3                   **a) The Agreement provides APS a moderate revenue**  
4                   **requirement increase.**

5           To ensure that APS has sufficient revenue to provide high quality service and the  
6           ability to maintain the grid during a three year stay-out, Section III reflects an agreement  
7           to set APS's fair value rate base at \$9,990,561,000.<sup>129</sup> Additionally, the parties agreed to  
8           increase APS's base rates by \$362.577 million, of which \$267.953 million is already  
9           collected through APS's adjustors.<sup>130</sup> In other words, the Agreement provides APS a net  
10          non-fuel, non-depreciation revenue requirement increase of \$87.250 million.<sup>131</sup> Section  
11          VIII of the Agreement provides the details of this revenue neutral transfer of funds  
12          currently collected in APS's adjustor mechanisms.<sup>132</sup> The base rate increase is  
13          comprised of:

14           Non-Fuel, Non-Depreciation Increase	\$87.250 million; plus
15           Depreciation Expense Increase	\$61.000 million; which equals
16           Non-Fuel Base Rate Increase	\$148.250 million; less
17           Base Fuel Rate Decrease	\$(53.626) million; which equals
18           Net Base Rate Increase before Adjustors	\$94.624 million; plus
19           Transfer from Adjustor Mechanisms	\$267.953 million; which equals
20           Total Base Rate Increase	\$362.577 million. <sup>133</sup>

21           The proposed revenue requirement increase is moderate and represents a more than 40%  
22           decrease from the Company's original request.<sup>134</sup>

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25           <sup>129</sup> See Settlement Agreement at Paragraph 3.2.

26           <sup>130</sup> See Snook Settlement Direct Testimony at 3.

27           <sup>131</sup> See Settlement Agreement at Paragraph 3.1.

28           <sup>132</sup> See Settlement Agreement at Paragraph 3.2.

<sup>133</sup> See Snook Settlement Direct Testimony at 3.

<sup>134</sup> Tr. 1087:3-7 (Tenney); see also Alderson Settlement Direct Testimony at 3; Higgins Settlement  
              Direct Testimony at 3.

1 In addition, when new rates become effective, the average bill impact across all  
2 customer classes will be 3.28%, compared to 5.74% in APS's original filed case.<sup>135</sup>  
3 Under the Agreement, residential customers will experience a 4.54% average bill impact  
4 compared to 7.96% in APS's original application, a moderation that was of particular  
5 importance to RUCO.<sup>136</sup> And general service customers will experience a 1.93% average  
6 bill impact.<sup>137</sup> Finally, to further moderate impacts to customer bills, Section 4.2 of the  
7 Agreement requires APS to refund \$15 million of collected, but unspent, DSMAC  
8 funds.<sup>138</sup> This customer credit will be refunded through the DSMAC and will lower  
9 customer bills in the first year.

10 **b) The Agreement settles all disputes on depreciation**  
11 **expense.**

12 Customers will benefit from reduced depreciation rates and annual depreciation  
13 expenses that are lower than originally proposed by APS.<sup>139</sup> Section VI of the  
14 Agreement provides that APS will lower its annual depreciation expense request by \$20  
15 million per year to the benefit of customers, resulting in a \$61 million increase in  
16 depreciation expense (inclusive of Cholla 2 Regulatory Asset Amortization).<sup>140</sup> APS  
17 agreed to adjust its proposed lives and net salvage rates for its distribution account and  
18 accelerate the amortization of the present excess depreciation reserves for Palo Verde.<sup>141</sup>

19 APS accepted a \$21 million decrease in annual depreciation expense for the Palo  
20 Verde Nuclear Generating Station. The Signing Parties agreed to apply all excess funds  
21 from the Palo Verde depreciation decrease to accelerate the amortization of the Cholla 2  
22 regulatory asset.<sup>142</sup> APS closed Cholla Unit 2 on October 1, 2015, and recorded a  
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24 <sup>135</sup> See Settlement Agreement at Paragraph 4.1; *see also* Miessner Direct Testimony at 3.

25 <sup>136</sup> Tr. 1087:8-11 (Tenney).

26 <sup>137</sup> See Settlement Agreement at Paragraph 4.1(a); *see also* Miessner Direct Testimony at 3.

27 <sup>138</sup> *Id.* at Paragraph 4.2.

28 <sup>139</sup> See Lockwood Direct Testimony at 15; White Direct Testimony at 11; Higgins Settlement Direct  
Testimony at 5; Smith Settlement Direct Testimony at 2.

<sup>140</sup> See Settlement Agreement at Paragraph 6.1.

<sup>141</sup> *Id.*

<sup>142</sup> See Snook Settlement Direct Testimony at 5.

1 regulatory asset relating to the remaining un-depreciated net book value.<sup>143</sup> Because  
2 Cholla Unit 2 is no longer providing service, it is in the public interest to accelerate the  
3 amortization of the regulatory asset.<sup>144</sup> RUCO witness Tenney testified that this  
4 resolution offered future benefits to customers, stating that RUCO was:

5  
6 glad to see . . . the Company . . . agree to making an accounting  
7 modification that will accelerate depreciation on Palo Verde and more  
8 rapidly amortize Cholla 2 . . . therefore creating benefit for the ratepayers  
9 that will be realized in future rate cases.<sup>145</sup>

10 Additionally, if the Cholla 2 regulatory asset becomes fully amortized prior to APS's  
11 next general rate case, the excess funds from the Palo Verde depreciation decrease will  
12 be used to accelerate recovery of APS's remaining investment in the Navajo Generating  
13 Station.<sup>146</sup>

14 Lastly, for the purposes of this case, APS's depreciation rates are deemed to use  
15 the straight-line method, vintage group procedure and remaining life technique.<sup>147</sup> In  
16 APS's next rate case, the Company will file an alternative calculation for cost of  
17 removal and dismantlement using the "FAS 143" discounted net present value  
18 method.<sup>148</sup> Staff witness Smith stated that, "[h]aving the alternative calculations  
19 included with APS's filing will facilitate evaluation by Staff and other parties of  
20 alternatives that could help mitigate the impact on customers of depreciation rate  
21 increases that are attributable to estimated future inflation."<sup>149</sup>

22 **c) The cost of capital provisions support the financial health**  
23 **of APS.**

24 The Agreement's cost of capital provision outlines the capital structure, cost of  
25 capital and fair value rate of return for the Company.<sup>150</sup> The Agreement adopts APS's

26 <sup>143</sup> See Smith Settlement Direct Testimony at 2-3.

27 <sup>144</sup> *Id.* at 3.

28 <sup>145</sup> Tr. 1087:12-18 (Tenney).

<sup>146</sup> See Settlement Agreement at Paragraph 6.4.

<sup>147</sup> See Snook Settlement Direct Testimony at 5.

<sup>148</sup> See Settlement Agreement at Paragraph 6.6.

<sup>149</sup> See Smith Settlement Direct Testimony at 5.

<sup>150</sup> Settlement Agreement at Paragraph 5.



1 filed capital structure of 44.2% debt and 55.8% equity, as well as APS's filed embedded  
2 cost of debt of 5.13%. APS had requested a higher return on common equity to reflect  
3 market conditions and systemic risk, but the Agreement only maintains the Company's  
4 existing authorized return on common equity of 10.0%, a concession important to both  
5 Staff and RUCO.<sup>151</sup> The Company also accepted a reduction to its existing fair value  
6 increment from 1% to 0.8%.<sup>152</sup> Despite these concessions by the Company, the cost of  
7 capital provisions provide a financial foundation upon which the Company believes it  
8 can continue providing safe and reliable service for its customers.

9 **d) The deferral and step increase for SCRs are necessary**  
10 **for APS to sustain a three year stay-out.**

11 APS witness Leland Snook explained that APS must install SCRs at its Four  
12 Corners Generating Facility in order to comply with federal environmental standards.<sup>153</sup>  
13 This equipment will significantly reduce fossil emissions of nitrogen oxides, while  
14 permitting APS to continue supplying its customers with a diverse portfolio including  
15 fossil base load generation.<sup>154</sup> Section IX of the Agreement describes the rate treatment  
16 related to the installation of SCRs at Four Corners Units 4 and 5 and is essential for the  
17 Company to sustain a three year stay-out contained in the Agreement.<sup>155</sup> Absent this  
18 provision, APS could not agree to a stay-out of any length.<sup>156</sup> AIC witness Yaquinto  
19 agreed, stating:

20 . . . these mechanisms promote rate gradualism and prevent the Company  
21 from filing pancaked rate applications. This benefits the Company, its  
customers, the Commission and the public in general.<sup>157</sup>

22 APS estimates the direct construction cost for the SCRs to be approximately \$400  
23 million. The first SCR must be installed and begin operating by March 31, 2018, and the  
24

25 <sup>151</sup> Tr. 994:25-995:12 (Smith); *see also* Tenney Settlement Direct Testimony at 4.

26 <sup>152</sup> *See* Snook Settlement Direct Testimony at 4.

27 <sup>153</sup> *See* Snook Direct Testimony at 14.

28 <sup>154</sup> *Id.*

<sup>155</sup> *See* Settlement Agreement at Section IX.

<sup>156</sup> *See* Snook Direct Testimony at 14-15; Lockwood Direct Testimony at 19.

<sup>157</sup> *See* Yaquinto Settlement Direct Testimony at 5.

1 second must be in operation no later than July 31, 2018.<sup>158</sup> Because the SCRs were not  
2 in service in time to be included in this case, a deferral and step increase is a mitigating  
3 alternative to APS having to immediately file another rate case.<sup>159</sup> This provision leaves  
4 this docket open for the sole purpose of allowing APS to file a request in part two of this  
5 case that its rates be adjusted, no later than January 1, 2019, to reflect the proposed  
6 addition of SCR equipment at Four Corners.<sup>160</sup>

7 APS requests the following specific language concerning the step-increase be  
8 included in the Commission's decision in this matter:

9 This rate case shall remain open for the sole purpose of allowing APS to  
10 file a request, no later than July 1, 2018, that its rates be adjusted to reflect  
11 the revenue requirement and deferral costs associated with the Selective  
12 Catalytic Reduction (SCR) environmental controls at the Four Corners  
13 Power Plant. Specifically, APS may within ten (10) business days after in-  
14 service operation of the second SCR, but no later than July 1, 2018, file an  
15 application with the Commission seeking to reflect in rates the rate base  
16 and expense effects associated with the installation of SCRs on Four  
17 Corners Units 4 and 5.<sup>161</sup>

18 Additionally, the Agreement includes an accounting deferral order for the SCRs  
19 similar to the one authorized in Decision No. 73130 (April 24, 2012). Language  
20 authorizing a deferral must be clear and unequivocal about what is being deferred and  
21 the potential for the deferral's recovery in rates in a specific future rate proceeding for  
22 the Company to be able to recognize an accounting deferral on its books of account.  
23 Thus, APS urges that any accounting deferral order approved in this decision contain the  
24 following language regarding the SCR deferral:

25 IT IS FURTHER ORDERED that Arizona Public Service Company is  
26 authorized to defer for possible later recovery through rates, all non-fuel  
27 costs (as defined in Paragraph 9.2 of the Settlement Agreement) of  
28 owning, operating, and maintaining the Selective Catalytic Reduction  
(SCR) environmental controls at the Four Corners Power Plant. Nothing  
in this Decision shall be construed in any way to limit this Commission's  
authority to review the entirety of the project and to make any

<sup>158</sup> See Snook Direct Testimony at 14.

<sup>159</sup> *Id.* at 15; see also Smith Settlement Direct Testimony at 13.

<sup>160</sup> See Snook Settlement Direct Testimony at 6.

<sup>161</sup> See Snook Settlement Direct Testimony at 6-8; see also Snook Direct Testimony at 16-17.



1 disallowances thereof due to imprudence, errors or inappropriate  
2 application of the requirements of this Decision.

3 It is anticipated that “[t]he combined bill impact from the deferral and the ongoing  
4 revenue requirement for an average residential customer [will] be slightly over 2%.”<sup>162</sup>

5 The rate treatment provisions related to the installation of SCRs at Four Corners are an  
6 integral part of the delicate financial balance embedded in the Agreement.

7 **e) The deferral for OMP provides customers a longer  
8 period of rate stability.**

9 Critically, the Agreement also includes an accounting deferral order for the  
10 OMP.<sup>163</sup> The OMP involves retiring 220 MWs of existing steam generation and  
11 replacing it with 510 MW of state-of-the-art combustion turbine generation.<sup>164</sup> New  
12 Ocotillo Units 6 and 7 will go into service in the fall of 2018, and Units 3, 4 and 5 will  
13 go into service in the spring of 2019.<sup>165</sup> APS estimates that the total direct construction  
14 cost of the OMP will be approximately \$500 million.<sup>166</sup> The OMP is a significant  
15 financial investment by the Company, and the timing of this investment is designed to  
16 coincide with when APS needs fast-ramping, flexible gas generation to service  
17 customers.<sup>167</sup> However, that timing does not coincide with this rate case.

18 Without a deferral, installing OMP to meet customer needs would virtually  
19 guarantee an immediate filing of another rate case with the conclusion of this  
20 proceeding. With the deferral, APS will instead be able to make the investment in  
21 modernizing Ocotillo without having to file a concurrent rate case to reflect the  
22 investment in rates, and customers will have the benefit of a longer period of rate  
23 stability. Additionally, Paragraph 10.3 of the Agreement provides that the Commission

24  
25 <sup>162</sup> See Snook Settlement Direct Testimony at 7.

26 <sup>163</sup> See Settlement Agreement at 13.

27 <sup>164</sup> See Snook Direct Testimony at 10.

28 <sup>165</sup> *Id.*

<sup>166</sup> *Id.*

<sup>167</sup> *Id.* at 11.



1 retains the ability to examine the prudence of the OMP in APS's next rate case and that  
2 a deferral of the OMP costs does not guarantee recovery of those costs.<sup>168</sup>

3 APS urges that any accounting deferral order approved in this case contain the  
4 following language regarding the OMP deferral:

5 IT IS FURTHER ORDERED that Arizona Public Service Company is  
6 authorized to defer for possible later recovery through rates, all non-fuel  
7 costs (as defined in Paragraph 10.1 of the Settlement Agreement) of  
8 owning, operating, and maintaining the Ocotillo Modernization Project  
9 and retiring the existing steam generation at Ocotillo. Nothing in this  
10 Decision shall be construed in any way to limit this Commission's  
11 authority to review the entirety of the project and to make any  
12 disallowances thereof due to imprudence, errors or inappropriate  
13 application of the requirements of this Decision.

14 The deferral provisions for OMP are in the public interest and should be approved.

15 **f) The deferral for property tax expense helps APS**  
16 **maintain its financial health.**

17 The Agreement provides a provision for APS to defer for future recovery from  
18 (or credit to) customers the Arizona property tax expense above or below the test year  
19 caused by changes to the applicable Arizona composite property tax rate.<sup>169</sup> Staff  
20 witness Ralph Smith recognized that the cost deferral related to changes in Arizona  
21 property tax rate provision is in the public interest and is "an integral part of the overall  
22 Settlement Agreement."<sup>170</sup> He further stated that "[t]he property tax deferral provision  
23 enhances APS's ability to extend the period between rate cases and is thus related to the  
24 rate case stability provision of the Settlement Agreement."<sup>171</sup>

25 Another benefit to customers is that the property tax deferral will not accrue  
26 interest if the balance is positive. However, if the balance would be a credit to APS's  
27 customers, the balance will accrue interest at APS's short-term debt rate. Any positive or  
28 negative property tax deferral balance will be amortized over 10 years in APS's next rate  
case, with a return equal to APS's short-term debt rate. Lastly, APS's property tax

<sup>168</sup> See Settlement Agreement at Paragraph 10.3; see also Smith Settlement Direct Testimony at 15.

<sup>169</sup> See Settlement Agreement at Section XI.

<sup>170</sup> See Smith Settlement Direct Testimony at 16.

<sup>171</sup> *Id.*

1 deferrals will be reviewed for reasonableness and prudence in APS's next general rate  
2 case.

3 **g) Modifications to the Company's LFCR, EIS and TCA**  
4 **will help customers and protect APS.**

5 The parties agreed to several important modifications to the Company's LFCR,  
6 EIS and TCA. For the LFCR, the parties agreed to four modifications: (1) removal of the  
7 LFCR opt-out provision because it has proven unnecessary; (2) revising how the LFCR  
8 will be applied to customer bills in order to better align with the updated rate plans; (3)  
9 revising when the new LFCR rates will take effect after Commission approval each  
10 year; and (4) removal of transmission costs from the LFCR conditioned upon the  
11 approval of the proposed TCA modifications.<sup>172</sup> For the EIS, the Agreement provides  
12 that the cumulative per kWh cap rate will increase from \$0.00016 to \$0.00050.  
13 Additionally, the parties agreed to the creation of a balancing account for the EIS.<sup>173</sup>  
14 Lastly, for the TCA, the parties agreed to modify the current adjustor to add a balancing  
15 account.<sup>174</sup>

16 **h) The modifications to the Company's PSA are in the**  
17 **public interest.**

18 The Agreement permits APS to recover chemical costs for lime, ammonia and  
19 sulfur that are incurred in the generation process through the PSA adjustor rate.<sup>175</sup> It also  
20 provides for recovery of third-party storage contract expenses through the PSA provided  
21 that APS files for approval with the Commission 90 days before a contract becomes  
22 effective. Lastly, the timing of PSA filings and approvals has been revised to promote  
23 efficiency. The September 30 preliminary annual PSA rate filing and the December 31  
24 final annual PSA rate calculation filing will be consolidated into one annual reset filing  
25 on or before November 30. The effective date of the PSA rate proposed by APS will  
26 remain with the first billing cycle in February, unless the Commission otherwise acts on

27 <sup>172</sup> See Settlement Agreement at Section XXXII.

28 <sup>173</sup> *Id.* at Section XXXIII.

<sup>174</sup> *Id.* at Section XXXIV.

<sup>175</sup> *Id.* at Section VII.

1 the APS calculation by February 1.<sup>176</sup> These changes to the PSA are in the public  
2 interest.

3           **7. The Agreement contains additional provisions that are in the**  
4           **public interest.**

5           As evidenced by the multitude of benefits already discussed, the Agreement is  
6 comprehensive. Certain provisions were not contested, or otherwise the focus of parties  
7 during the hearing. Nonetheless, these provisions are important and provide numerous  
8 benefits to customers:

- 9           • **Section XII-Cost of Service Study:** APS's cost of service study (in an  
10           Excel spreadsheet with inputs linked to outputs) will be made available to  
11           parties in its next rate case. APS will also perform the Average and Excess  
12           methodology to allocate production demand costs to residential and  
13           general service classes and then reallocate production demand within the  
14           residential sub-classes based on 4CP in its next rate case, but can propose  
15           alternative allocation methods.
- 16           • **Section XIII-Navajo Generating Station:** Any potential impacts of the  
17           closure of the Navajo Generating Station will be addressed in Docket No.  
18           E-00000C-17-0039 prior to the filing of its next rate case, or the Company  
19           may request a separate docket be opened.<sup>177</sup>
- 20           • **Section XIV-Annual Workforce Planning Report:** APS will annually  
21           monitor and report on the progress it is making toward replacing the aging  
22           workforce.<sup>178</sup>
- 23           • **Section XV-Self-Build Moratorium:** APS will not pursue any new self-  
24           build generation option having an in-service date prior to January 1, 2022,

25  
26  
27 <sup>176</sup> See Miessner Settlement Direct Testimony at 16-17.

28 <sup>177</sup> See Settlement Agreement at Section XIII.

<sup>178</sup> *Id.* at Section XIV.



1 and December 31, 2027 for combined-cycle generating units, unless  
2 expressly authorized by the Commission.<sup>179</sup>

- 3 • **Section XVI-Tax Expense Adjustor Mechanism:** An adjustor will be  
4 created to enable the pass-through of income tax effects to customers in  
5 the event of significant Federal income tax reform prior to the filing of  
6 APS's next rate case.<sup>180</sup>
- 7 • **Section XXXI-Schedule 3:** APS will create a new classification in  
8 Service Schedule 3 for "Rural Municipal Business Developments" to aid  
9 rural communities to better develop the commercial potential of  
10 municipally-owned land.<sup>181</sup>
- 11 • **Section XXXVII-Compliance Matters:** The Agreement adopts Staff's  
12 recommendation for the elimination or wavier of certain compliance  
13 requirements.<sup>182</sup>

14 **C. The Settlement is a unified package and material changes would**  
15 **disrupt a series of carefully interlocked compromises.**

16 It is highly unlikely that any party is satisfied with the entire Settlement. Instead,  
17 each party was willing to accept compromises on important issues in exchange for  
18 reciprocal compromises by other parties.<sup>183</sup> Both of these mutual compromises, in turn,  
19 were necessarily made in negotiation with yet other parties, who in turn sought  
20 modification to yet a different provision that required its own set of delicately balanced  
21 compromises.<sup>184</sup>

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24 <sup>179</sup> *Id.* at Section XV.

25 <sup>180</sup> *Id.* at Section XVI.

26 <sup>181</sup> *Id.* at Section XXXI.

27 <sup>182</sup> *Id.* at Section XXXVII.

28 <sup>183</sup> See Tenney Settlement Direct Testimony at 5; Kobor Settlement Direct Testimony at 3; Birmingham Settlement Direct Testimony at 4.

<sup>184</sup> Tr. 39:8-18 (EFCA Opening Statement); see also Lockwood Settlement Direct Testimony at 3; Abinah Settlement Direct Testimony at 5.

1 To protect the delicate nature of these compromises, the Signing Parties agreed  
2 that any one party (or all parties) can withdraw from the Settlement in response to a  
3 material alteration:

4  
5 If the Commission fails to issue an order adopting all material terms of this  
6 Agreement, any or all of the Signing Parties may withdraw from this  
7 Agreement, and such Signing Party(ies) may pursue without prejudice  
8 their respective remedies at law. For purposes of this Agreement, whether  
9 a term is material shall be left to the discretion of the Signing Party  
10 choosing to withdraw from the Agreement.<sup>185</sup>

11 Each Signing Party also agreed to support and defend the Agreement as is before the  
12 Commission.<sup>186</sup>

13 These provisions are common in settlement agreements before the Commission,  
14 and are designed to promote settlement by protecting the result of parties' negotiations.  
15 The evidence must support a finding that the Settlement Agreement is in the public  
16 interest, and in every respect, the Commission enjoys the final authority on all aspects of  
17 the Settlement. Nonetheless, this Settlement involves a large number of stakeholders  
18 with widely diverse interests. Even seemingly modest changes could have cascading  
19 effects that one or more parties might deem material. Consistent with the Settlement  
20 Agreement, and to protect the delicate compromise that the parties have achieved, APS  
21 requests that the Settlement Agreement be approved without material modification.

## 22 **PART 2: CONTESTED ISSUES**

### 23 **III. EFCA'S REQUEST FOR SPECIAL RATE TREATMENT IS NOT IN THE** 24 **PUBLIC INTEREST.**

25 EFCA seeks special rate treatment so that its members can offer a new distributed  
26 technology to APS customers on more economically-attractive terms. Similar to Net

27 <sup>185</sup> See Settlement Agreement at Paragraph 39.5.

28 <sup>186</sup> *Id.* at Paragraph 40.6.

1 Energy Metering, however, the changes that EFCA seeks can only be granted at the  
2 expense of other APS customers. With NEM, at least one of EFCA's members sold  
3 rooftop solar. This time, EFCA's members intend to sell batteries to large commercial  
4 customers in APS's E-32 L class (those whose average demand is 401-3,000 kW per  
5 month). To support this new business venture, EFCA requests that three aspects of the  
6 E-32 L rate design be removed: (i) the 80% ratchet; (ii) the declining demand blocks;  
7 and, (iii) the off-peak demand charge.<sup>187</sup>

8 Each of these rate components, however, are critical to ensure that APS collects  
9 an appropriate amount of fixed costs from those customers that cause the costs. EFCA's  
10 proposal has "taken three or four of the basic safeguards that we have that ensure that  
11 each customer pays their proper amount of grid costs and [has] removed every one of  
12 them."<sup>188</sup> If the cost-causation link in the E-32 L rate is broken to accommodate EFCA's  
13 members, a cost shift will occur as any unrecovered fixed costs are collected from other  
14 members of the E-32 L class. The inevitability of this cost shift might be why it is  
15 EFCA, and not any member of the E-32 L class, that requests this change.

16 Because the E-32 L rate design is cost-based and presents no barriers to  
17 commercial customers from installing batteries, EFCA's proposal should be rejected. If  
18 there is an interest in incentivizing customer-installed batteries beyond the current rate  
19 design, APS's proposal to offer transparent incentives that protect all other customers  
20 from undue cost shifts is a better alternative. If Arizona has learned anything about  
21 incentives for customer-sited technologies, it is this: incentives should be transparent so  
22 that they can sized to achieve specific Commission objectives, and reduced as  
23 installation costs go down. Arizona has spent more than four years struggling with the  
24 alternative—burying incentives in rate design and policies like Net Energy Metering—  
25 and APS urges the Commission to avoid creating the same challenges for a new  
26 technology.

27 <sup>187</sup> Garrett Settlement Direct Testimony at 11, 14, and 15, respectively.

28 <sup>188</sup> Tr. 466:17-21 (Miessner).



1           **A.     The EFCA proposal for a non-ratchet alternative to Rate Schedule E-**  
2           **32 L TOU is the new net metering.**

3           The Commission adopted the NEM rules in late 2008 as a means to promote  
4 distributed renewable energy.<sup>189</sup> And promote they did. Rooftop solar installations were  
5 the major beneficiaries of this subsidy and in no Arizona locale did rooftop solar  
6 proliferate more than in the APS service area—increasing from a mere 200 units at the  
7 end of 2008 to some 56,000 just eight years later.<sup>190</sup> Installations in 2017 will set a new  
8 record, just as has been the case for every year since the institution of NEM. NEM also  
9 spawned a new business model as solar leases and PPAs became the norm, with  
10 customer-owned solar the increasingly-rare exception.

11           **1.     EFCA seeks to further storage using incentives buried in rates,**  
12           **just as NEM furthered rooftop solar.**

13           EFCA seeks to promote a different technology to complement its members'  
14 rooftop solar business—battery storage. This would begin the rise of a new high cost  
15 distributed technology product in Arizona just as the Commission begins to phase out  
16 NEM. And although EFCA couches its arguments in terms of “removing barriers” to the  
17 use of battery storage, make no mistake: EFCA’s suggested optional rate removes every  
18 safeguard against unrecovered costs and cost shifting.<sup>191</sup> EFCA’s proposal is specifically  
19 designed to promote battery storage,<sup>192</sup> just as NEM promoted rooftop solar. And the  
20 results will be the same—unrecovered fixed costs in the short run and an ever-expanding  
21 cost shift over time.

22           It is worth noting an important difference between the introduction of NEM and  
23 the EFCA proposal in this case. NEM had significant support from individual utility  
24 customers and representatives of consumer groups. Despite very active participation in  
25 this docket by E-32 L customers, however, such as Wal-Mart, Kroger, and entities  
26 representing E-32 L accounts (AECC, FEA, and the Schools), no potentially affected

27 <sup>189</sup> Decision No. 70567 (Oct. 23, 2008). APS’s EPR-6 rate schedule was the first NEM tariff approved  
28 under these rules in Decision No. 71182 (June 24, 2009).

<sup>190</sup> See EFCA Exhibit 12 (APS’s 2017 IRP) at 80.

<sup>191</sup> Tr. 466:17-24 (Miessner).

<sup>192</sup> Tr. 1233:7-15(Garrett); Tr. 1235:18-25 (Garrett).

1 APS customer requested a non-ratchet option, or even testified in support of the EFCA  
2 proposal, despite the freedom to do so under the Settlement.<sup>193</sup> This should come as no  
3 surprise. EFCA's optional rate is designed to promote a specific product and business  
4 model—one built on shifting costs between customers within the E-32 L class.

5 Another difference from the Commission's earlier adoption of NEM is that NEM  
6 advocates denied to the end that NEM caused significant unrecovered fixed costs, or that  
7 NEM resulted in a cost shift from participants to non-participants. But here, EFCA  
8 cannot and does not make any such denial. During the hearing, EFCA witness Garrett  
9 readily conceded that large commercial customers using his proposed optional rate  
10 should be included in the LFCR to minimize the loss of revenue from this so-called  
11 "revenue neutral" proposal.<sup>194</sup> Moreover, EFCA witness Garrett conceded that the LFCR  
12 only socializes the cost shift by spreading to all customers the cost responsibility that  
13 should have been born by large general service customers taking advantage of this rate  
14 subsidy.<sup>195</sup>

## 15 **2. EFCA's proposal will cause a substantial cost shift.**

16 APS's E-32L class is particularly vulnerable to cost shifts. Customers in that  
17 class account for 10% of APS's total revenues, but only constitute significantly less than  
18 0.1% of APS customers.<sup>196</sup> This means that each individual E-32L customer contributes  
19 a substantial amount to the grid's fixed costs, heightening the cost shift risk for each  
20 battery storage installation. Moreover, the small number of other E-32L customers onto  
21 which those unpaid fixed costs would be shifted, increases the consequence of any cost  
22 shift for each affected customer.

23 EFCA is silent on the precise cost shift figure, but it is possible to assess at least  
24 some of the risk to APS and other large commercial customers by using the proposed  
25 rates in Mr. Garrett's Rebuttal Settlement Testimony and comparing them to the rates

26 <sup>193</sup> Tr. 1234:21-1237:22 (Garrett).

27 <sup>194</sup> Tr. 1249:7-1250:18 (Garrett).

28 <sup>195</sup> Tr. 1250:16-18 (Garrett); *see also* Tr. 1042:7-20 (Smith).

<sup>196</sup> Tr. 464:10-465:12 (Miessner).

1 proposed by the Settlement. As EFCA witness Garrett testified, eliminating the ratchet  
2 requires that demand rates be increased by \$7 million.<sup>197</sup> Making the ratchet optional  
3 requires an even larger adjustment.<sup>198</sup>

4 Eliminating off-peak demand charges could be even more significant. Off-peak  
5 demand revenue for the E-32L TOU class is 22% of the total demand revenue.<sup>199</sup>  
6 Because the costs to be recovered through this off-peak revenue are driven by customer  
7 load during off-peak periods,<sup>200</sup> they cannot be avoided through reduced on-peak  
8 consumption. Nonetheless, EFCA seeks to move all of this unavoidable, off-peak  
9 revenue to the on-peak demand charge. To the extent that battery storage customers  
10 reduce their *on-peak* consumption, they will avoid paying fixed costs tied to *off-peak*  
11 usage.

12 Severing the connection between bill savings and reduced grid costs is exactly  
13 why the cost shift occurs. EFCA claims that its proposal is “revenue neutral,” yet this is  
14 not true. The moment that customers begin installing storage under EFCA’s proposal—  
15 the precise result that EFCA seeks to incentivize—the customers will begin avoiding  
16 contributions to unavoidable fixed costs. Will all of these cost shifts occur immediately,  
17 or even before the next APS rate case? No, they will not. But then NEM started as a tiny  
18 pebble rolling down the mountain, and in less than a decade the pebble had grown into a  
19 powerful avalanche.

### 20 **3. The risk of creating a new NEM is simply not worth it.**

21 EFCA offers a “solution” to a non-existent problem. It is a “solution” we have  
22 seen before in the guise of promoting a specific technology through rate subsidies—  
23

24  
25 <sup>197</sup> Garrett Settlement Rebuttal Testimony, Tables 1 and 2 at 15-16, referencing APS Response to Data  
Request EFCA 31.5(c) in which APS provided the \$7 million calculation.

26 <sup>198</sup> Tr. 465:13-22 (Miessner).

27 <sup>199</sup> See Garrett Settlement Rebuttal Testimony, Table 2 at 16 (showing in the APS Proposed Revenue  
column that the off-peak charges are designed to generate \$2,171,728 of the total E-32L TOU class  
revenue of \$9,843,465).

28 <sup>200</sup> See Miessner Settlement Rebuttal Testimony at 19.



1 NEM. It is a “solution” that lacks any support from potentially affected customers or  
2 disinterested neutrals on the issue, such as Staff and RUCO.

3 EFCA’s attempts to promote the business line of its most prominent member are  
4 clearly understandable from its point of view. But at what price in potentially  
5 unrecovered fixed costs and a new generation of shifted costs? The proposed Settlement  
6 Agreement solves many real problems facing APS and its customers. There is no need to  
7 create new problems by disturbing a rate structure for large commercial customers that  
8 is working as intended and has the broad support of those taking service under it.

9 **4. APS’s proposal offers a way to incentivize storage, but protect**  
10 **all other customers at the same time.**

11 In contrast, the APS proposal as outlined in APS Exhibit 33<sup>201</sup> only places \$2  
12 million at risk while maintaining the safeguards built into E-32 L—safeguards to which  
13 no customer affected by that rate has objected. APS’s program will test whether battery  
14 storage technology consistently and reliably reduces peak demands, and also provide a  
15 means to assess the overall economics of the technology. But these assessments will  
16 occur under controlled circumstances in a manner similar to the proposed R-Tech  
17 program for residential customers.<sup>202</sup> And by incentivizing batteries through a  
18 transparent mechanism, the incentive can be reduced as market costs decline.

19 **B. The E-32 L TOU ratchet and off-peak demand charge are cost-based**  
20 **and properly incentivize storage.**

21 As noted in the Company’s earlier discussion of unrecovered fixed costs and the  
22 cost shift, the ratchet serves a dual purpose of assuring cost recovery by the utility and  
23 promoting the recovery of those costs from the right group of customers.<sup>203</sup> Similarly,  
24 the off-peak demand charge, although much lower than the on-peak charge (and  
25 appropriately so), recognizes that significant costs exist year round, and during both  
26 peak and off-peak periods of the day.<sup>204</sup> Obvious examples include the transformer and

27 <sup>201</sup> Tr. 811:15-816:22 (Snook).

28 <sup>202</sup> Tr. 802:22-803:16 (Snook).

<sup>203</sup> Tr. 422:8-15 (Miessner); Tr. 442:8-23 (Miessner).

<sup>204</sup> Tr. 473:6-474:11 (Miessner); *see also* Miessner Settlement Direct Testimony at 19.

1 primary distribution capacity.<sup>205</sup> In addition, the R-Tech residential rate contained in the  
2 Settlement Agreement has an off-peak demand charge as a safeguard to ensure the  
3 customer that causes a cost will pay the cost.<sup>206</sup> Removing the off-peak demand charge  
4 from a more sophisticated, large commercial customer rate design would remove an  
5 essential safeguard and would be inappropriate.

6 **1. The ratchet does not eliminate the incentive for storage.**

7 EFCA is simply wrong in its conclusion that the ratchet eliminates the incentive  
8 to reduce demand. First of all, reductions in demand are universally accompanied by  
9 reductions in energy usage—something unaffected by the ratchet. Thus, customers will  
10 still receive some bill savings resulting from reduced energy usage. Second, the ratchet  
11 period is a rolling 12 months, such that reductions in demand occurring after the summer  
12 peak will result in savings the following summer on a more timely and predictable basis.  
13 Third, the ratchet emphasizes the importance of reducing summer demand, thus  
14 enhancing the price signal sent by an unratcheted rate such as proposed by EFCA.<sup>207</sup> In  
15 contrast, EFCA's proposed rate would reward off-peak savings at on-peak prices—  
16 hardly a benefit to non-participating customers and one of the more obvious flaws in  
17 NEM.

18 Finally, APS's E-32 L ratchet is only for 80% of the customer's peak demand  
19 imposed on the system during APS's peak summer months—and that is only in effect  
20 for the single year following that summer peak. Customers can install storage, reduce  
21 what they pay for demand by 20% in the first year, and achieve even larger savings in  
22 *all* subsequent years. Indeed, EFCA essentially admits that its complaint solely concerns  
23 the potential for first-year savings.<sup>208</sup> But as discussed below, concerns about achieving  
24 first year savings are fundamentally business model issues, and rates should not be  
25

26 <sup>205</sup> Tr. 474:1-11 (Miessner).

27 <sup>206</sup> Tr. 802:22-25 (Snook); 803:1-11 (Snook).

28 <sup>207</sup> Tr. 868:12-869:6 (Snook).

<sup>208</sup> See Garrett Settlement Rebuttal Testimony at 4.



1 designed to accommodate specific business concepts. And APS's proposal is a better  
2 alternative for addressing EFCA's first-year concerns.

3                   **2. First-year savings can be addressed through contract**  
4                   **negotiations or APS's proposal, among other options.**

5           EFCA's primary complaint is that ratchet inhibits first year savings from storage.  
6 What ratchets inhibit, however, are undeserved savings from reducing demand during  
7 non-summer months or for only part of the summer.<sup>209</sup> As noted by APS witness  
8 Miessner, battery vendors can maximize first year savings by timing their installations to  
9 precede the summer or by structuring contracts to better match payments with  
10 savings.<sup>210</sup> As APS witness Miessner testified, "customers could realize substantial first-  
11 year savings if they installed the unit prior to the summer billing period."<sup>211</sup>

12           Other contractual options exist to mitigate EFCA's first-year savings complaint,  
13 including battery vendors (i) restructuring their charges so that the first year involves  
14 reduced or even zero payments; (ii) reducing their prices during the off-season; or, (iii)  
15 staging installations so that the first-year installation is smaller and only reduces demand  
16 by the 20% ratchet amount, with the second-year installation being larger. Vendors of  
17 high efficiency air conditioners face the same marketing challenge, but somehow  
18 manage to sell units during non-summer months, despite the delay in their customers  
19 receiving the benefits of that investment.<sup>212</sup> Indeed, ACC witness Smith testified that  
20 customers simply need to understand the "risk" of ratchets,<sup>213</sup> exactly the kind of hurdle  
21 best resolved through contract negotiations, rather than through incentives buried in rate  
22 design.

23           APS's storage proposal would also address EFCA's concerns for first year  
24 savings by: (i) offering an up-front cash incentive; (ii) resetting a customer's demand  
25 that would be used to establish the ratchet when the customer installs storage based on

26 <sup>209</sup> See Miessner Settlement Rebuttal Testimony at 15:17-22.

27 <sup>210</sup> See Miessner Settlement Direct Testimony at 19-22; see also Tr. 459:22-460:20 (Miessner).

28 <sup>211</sup> Miessner Settlement Rebuttal Testimony at 16:1-3.

<sup>212</sup> Tr. 459:12-21 (Miessner).

<sup>213</sup> Tr. 1065:12-22 (Smith).



1 the design criteria of the storage technology; and, (iii) providing a demand forgiveness  
2 once per year to address a circumstance where the equipment does not function as  
3 intended.<sup>214</sup>

4 **3. Ratchets offer other benefits that mitigate any limited downside**  
5 **asserted by EFCA.**

6 Staff rate design witness Ralph Smith cited the advantages of demand ratchets at  
7 pages 22 and 23 of his Direct Settlement Testimony (Staff Exhibit 11). They include (i)  
8 mitigating any cost shift; (ii) promoting revenue stability; (iii) promoting equitable rate  
9 design; and, (iv) encouraging a more efficient use of the system:

10 Q. . . . And based on your testimony, ratchets can mitigate a cost shift  
11 between customers to the extent utilities are unable to collect all of their  
12 fixed costs for serving a customer, is that correct?

13 A. That's usually the intended purpose of why a ratchet is put into the  
14 rate design.

15 Q. And they promote revenue stability for the utility?

16 A. Yes.

17 Q. And they can promote more equitable rate design by allocating cost  
18 on the basis of causation in the appropriate circumstances?

19 A. Correct.

20 Q. And they can promote the more efficient and cost effective use of  
21 the system by improving load factor or encouraging customers to improve  
22 their load --

23 A. Encourage customers to improve their load factors, correct.<sup>215</sup>

24  
25  
26 Mr. Smith reiterated these advantages under cross-examination from EFCA.<sup>216</sup> And  
27 although Mr. Smith noted that some customers do not like ratchets, he also noted that he  
28 has seen this dislike when, "due to an event that may have been very unusual and  
perhaps beyond [the customer's] ability to control," the customer's "battery doesn't  
operate during a peak period"<sup>217</sup> or the customer is "relying on self-generation to supply  
a portion of their load and that generation should fail."<sup>218</sup>

<sup>214</sup> Tr. 458:6-12 (Miessner); Tr. 814:24-816:22 (Snook).

<sup>215</sup> Tr. 1051:23-1052:16 (Smith).

<sup>216</sup> Tr. 1040-48 (Smith).

<sup>217</sup> Tr. 1062:8-1063:1 (Smith).

<sup>218</sup> Tr. 1065:3-8 (Smith).

1           **C. Commission decisions in the TEP and UNSE rate cases cannot guide a**  
2           **decision regarding APS's ratchet.**

3           No Commission decision is binding precedent, and as Staff witness Abinah  
4 testified when asked about the ratchet decisions in the TEP and UNSE cases, "each case  
5 stands on its own merit."<sup>219</sup> The evidence presented in this case makes clear that the  
6 recent TEP and UNSE rate case decisions do not strengthen EFCA's case to remove  
7 APS's E-32 L ratchet.

8           **1. TEP and UNSE's ratchets are too different from APS's E-32 L**  
9           **TOU ratchet to offer a useful comparison.**

10          The TEP and UNSE ratchets for what they call Large General Service or LGS  
11 customers are based on the highest demands during the preceding 11 months, which  
12 includes all the non-summer months. It also applies to non-peak hours of the day.<sup>220</sup> It  
13 were these two aspects of the UNSE ratchet that caused Fresh Produce Association of  
14 the Americas (a largely non-summer peaking UNSE customer) and Nucor Steel (a  
15 largely off-peak steel production company) to complain about the ratchet—an issue that  
16 EFCA did not even raise in the UNSE docket.<sup>221</sup>

17          Unlike the UNS ratchet, however, APS's E-32 L ratchet can only be established  
18 by demand usage during the summer on-peak period. Indeed, RUCO's witness in the  
19 TEP proceeding, Lon Huber, specifically called out the year-long ratchet period of  
20 TEP's proposed LGS rate in his critical remarks quoted extensively, if out of context, by  
21 EFCA witness Garrett.<sup>222</sup> Neither Mr. Huber nor RUCO has taken issue with APS's use  
22 of a summer-peak only ratchet for E-32 L.<sup>223</sup>

23          The Commission's decision in the TEP proceeding is similarly inapposite here.  
24 There, TEP sought to simultaneously create a new Medium General Service (MGS)  
25 class, ranging from 20 kW to 300 kW, and use a ratchet in the MGS rate design.<sup>224</sup> The

26 <sup>219</sup> Tr. 1270:16-17 (Abinah).

27 <sup>220</sup> Tr. 350:2-8 (Miessner).

28 <sup>221</sup> See Decision No. 75697 at 72-87.

<sup>222</sup> See Garrett Settlement Direct Testimony at 7; Garrett Settlement Rebuttal Testimony at 5.

<sup>223</sup> Tr. 1246 (Garrett); see also RUCO Exhibit 5.

<sup>224</sup> See Decision No. 75975 at 72-73.

1 Commission criticized TEP's MGS ratchet proposal, saying it added "a level of  
2 complexity and unfairness to a class of customers who [were] new to demand  
3 charges."<sup>225</sup> By contrast, APS does not seek to create a new "MGS" rate class. Nor does  
4 APS seek to impose a ratchet on customers with monthly loads as small as 20 kW.  
5 Instead, the average demand for customers in APS's E-32 L class ranges from 401 to  
6 3,000 kW per month.

7 It is true that during Open Meeting, a Commission amendment modified the  
8 recommendation underlying Decision No. 75975 to order TEP to create an optional,  
9 non-ratchet rate for TEP's Large General Service class.<sup>226</sup> This amendment, however,  
10 did not generate much discussion, and was voted on without any discussion of the  
11 potential implications for other customers, including the inevitable cost shift that will  
12 result from removing ratchets. Moreover, the amendment did not remove other language  
13 in Decision No. 75975 that supports APS's position: "Ratchets might make sense for  
14 large customers which tend to have high load factors, but not for smaller customers, and  
15 especially not for customers who do not have prior experience with demand charges."<sup>227</sup>

16 The decision in the TEP rate case does not establish a strong Commission policy  
17 disfavoring ratchets, especially for larger customers. Instead, it suggests an incremental  
18 approach to ratchets that might support APS's battery incentive proposal as much as it  
19 supports anything. And although the Commission was critical of UNSE's ratchets in the  
20 UNSE proceedings, the primary basis for that criticism does not exist with APS's  
21 ratchets. Given the differences between the TEP and UNS circumstances and this  
22 proceeding, the Commission's decisions in TEP or UNS should be given little, if any,  
23 weight when assessing EFCA's proposal in this proceeding.

24  
25  
26  
27 <sup>225</sup> Decision No. 75975 at 94.

28 <sup>226</sup> See Decision No. 75975 at Ordering Paragraph 60.

<sup>227</sup> Decision No. 75975 at 94.



1                   2.     **EFCA's proposal here is far more sweeping than the narrow**  
2                               **decisions about ratchets in the TEP and UNSE cases.**

3             It is important to note that in the TEP and UNSE electric rate cases, the sole focus  
4     was on the ratchet feature of large customer rates, as was EFCA's direct rate design  
5     testimony in this rate case.<sup>228</sup> It was only in pre-filed settlement testimony that EFCA  
6     proposed removing the declining block and off-peak demand rate structures. These two  
7     modifications, however, go much further than a discussion regarding seasonal demand  
8     ratchets, and *were never proposed, much less considered* in the TEP and UNS cases. In  
9     fact, the Commission ordered TEP to propose a non-ratcheted rate design, which is far  
10    different from the detailed, three-part proposal that EFCA seeks to impose on APS and  
11    APS's E-32 L customers. Moreover, eliminating the off-peak demand charge and the  
12    declining demand blocks essentially ensures that a cost-shift will occur, and greatly  
13    increases the potential magnitude of both that cost shift and the under-recovery of fixed  
14    costs by APS. The Commission decisions in the TEP and UNS rate cases cannot be a  
15    basis to adopt EFCA's sweeping proposals in this proceeding.

16           **IV.   THE AMI OPT-OUT PROPOSAL IS IN THE PUBLIC INTEREST.**

17           APS's standard meter is an AMI meter. AMI technology is a foundational  
18    component of a modern electrical grid and critical for the Company to continue  
19    providing safe and reliable service while meeting our customer's changing needs.<sup>229</sup>  
20    AMI technology also provides benefits to APS customers and is more than simply a way  
21    to measure electricity usage.<sup>230</sup>

22           Nonetheless, if a customer opts out of standard AMI metering, they may take  
23    service with a digital meter.<sup>231</sup> The Agreement proposes an AMI opt-out program for  
24    residential customers that do not want AMI meters and request non-standard  
25    metering.<sup>232</sup> Through negotiations with parties, the Agreement adopts a lower upfront

26           <sup>228</sup> See Garrett Direct Rate Design Testimony at 13.

27           <sup>229</sup> See Bordenkircher Settlement Rebuttal Testimony at 4.

28           <sup>230</sup> See Bordenkircher Settlement Rebuttal Testimony at 3.

<sup>231</sup> See Bordenkircher Settlement Rebuttal Testimony at 3.

<sup>232</sup> See Settlement Agreement at Section 30.

1 and monthly fee for the opt-out program than originally proposed in the Company's  
2 direct testimony.<sup>233</sup> The program now includes an upfront fee of \$50 if the customer asks  
3 to replace an existing standard meter, and an ongoing monthly meter reading fee of  
4 \$5.<sup>234</sup> The opt-out program is limited to customers served under a residential rate,  
5 excluding those with distributed generation.<sup>235</sup>

6 As discussed below, the AMI opt-out program is in the public interest and is a  
7 reasonable option for customers that do not want to be served with a standard meter.

8 **A. AMI is a critical building block for a modernized electric grid.**

9 Modernizing the electric grid begins with more timely and accurate information  
10 about its operation. In order for APS, and in fact the whole industry, to be in the best  
11 position to accept further expansion of renewable resources and other customer-sited  
12 technologies and choices, the utility must accurately understand the effects of those  
13 systems on the grid to which they are tied.<sup>236</sup> For example, residential rooftop solar  
14 installations can alter distribution voltage levels and stability.<sup>237</sup> To provide reliable  
15 service, APS must be able to manage voltage and power quality on its system, and AMI  
16 is an increasingly important tool for planning and managing the distribution grid as  
17 rooftop solar penetration increases.<sup>238</sup>

18 Importantly, AMI provides system operators critical visibility into the day-to-day  
19 operations of the grid, including system loading and solar production.<sup>239</sup> APS witness  
20 Scott Bordenkircher testified that AMI allows the Company to gain better insight and  
21 awareness of the "overall health and reliability of the grid."<sup>240</sup> Because the AMI system  
22 includes communication networks and data management systems, it permits APS to  
23 increase overall efficiency, improve reliability and provide better service for its

24 <sup>233</sup> See Miessner Direct Testimony at 58, *see also* Tr. 259:7-13 (Lockwood).

25 <sup>234</sup> See Miessner Settlement Direct Testimony at 12.

26 <sup>235</sup> See Miessner Settlement Direct Testimony at 12.

27 <sup>236</sup> Tr. 1037:15-19 (Smith); *see also* Bordenkircher Settlement Rebuttal Testimony at 4.

28 <sup>237</sup> See Froetscher Direct Testimony at 11, Bordenkircher Direct Testimony at 3.

<sup>238</sup> See Bordenkircher Direct Testimony at 7.

<sup>239</sup> See Bordenkircher Settlement Rebuttal Testimony at 4.

<sup>240</sup> Tr. 584:10 (Bordenkircher).



1 customers.<sup>241</sup> AMI is a foundational building block for APS to develop future advanced  
2 grid programs that will leverage this augmented system visibility and situational  
3 awareness.<sup>242</sup>

4 **B. AMI technology benefits APS customers in numerous ways.**

5 Beyond system-level benefits, AMI metering helps customers manage energy  
6 usage and reduce monthly bills by providing daily usage data that can be accessed on the  
7 Company's website, aps.com. During the hearing, Mr. Bordenkircher testified that by  
8 having more information provided through AMI metering, customers can "adapt their  
9 usage pattern, should they wish, and therefore potentially reduce their bill."<sup>243</sup>  
10 Additionally, because these data are available, customers can sign up to receive  
11 individualized alerts regarding their energy usage and bill amounts, providing customer  
12 with even more control over their energy use.<sup>244</sup> Mr. Bordenkircher further stated that in  
13 his own personal experience, "having the hourly information allows me to look at what  
14 have been my five highest hours of usage, and then between myself and my family we  
15 can talk about what we had running during that time or purposely chose to not run  
16 during that time."<sup>245</sup> The opportunities stemming from customers having access to AMI  
17 data will only grow as more and more functionality becomes available.

18 Customers also benefit from the fact that a variety of functions that have  
19 historically been handled manually can now be handled remotely with AMI meters.  
20 AMI metering minimizes delays when a customer requests connect service, disconnect  
21 service, or rate plan changes because physical visits are not required with AMI.<sup>246</sup>  
22 Additionally, AMI meters lower APS's operating costs, which lowers rates for  
23 customers.<sup>247</sup> AMI also provides benefits that may not be immediately obvious to  
24

25 <sup>241</sup> See Bordenkircher Settlement Rebuttal Testimony at 3.

26 <sup>242</sup> See Bordenkircher Direct Testimony at 7.

27 <sup>243</sup> Tr. 604:15-21 (Bordenkircher).

28 <sup>244</sup> See Bordenkircher Settlement Rebuttal Testimony at 3.

<sup>245</sup> Tr. 606:17-23 (Bordenkircher).

<sup>246</sup> Id. 604:22-605:7 (Bordenkircher).

<sup>247</sup> Tr. 605:20-606:2 (Bordenkircher).



1 customers. AMI metering provides the Company with the ability to measure power  
2 quality, ensuring that electricity delivered to customers is within the correct voltage  
3 range.<sup>248</sup> Further, Mr. Bordenkircher testified that AMI meters also transmit a signal  
4 when meter tampering is attempted, allowing APS to correct the situation quickly to  
5 reduce energy theft and fraud.<sup>249</sup> Lastly, a reduction in truck rolls as a result of AMI also  
6 reduces carbon emissions, which benefits all customers.<sup>250</sup>

7 **V. ARGUMENTS AGAINST THE AMI PROPOSAL SHOULD BE**  
8 **REJECTED.**

9 Three parties make arguments against adopting the AMI opt-out program. At the  
10 hearing, Messrs. Woodward and Gayer, representing themselves, claimed that AMI is  
11 unsafe, unsecure, violates customer privacy, and could start fires. Their arguments,  
12 however, fundamentally concern AMI itself, not the opt-out program.<sup>251</sup> APS decided to  
13 move to AMI meters as the standard meter offering more than a decade ago, during  
14 which the ACC has found the Company's investments to be reasonable and prudent in at  
15 least two previous cases.<sup>252</sup> The Company did not propose removing or making any bulk  
16 changes to its AMI system in this case, and no party has offered sufficient evidence to  
17 evaluate the cost or consequences of doing so.

18 Instead, the Agreement provides a discrete means for customers to opt-out of  
19 AMI if they so choose. Discrete opt-outs will meet the desires of those few customers  
20 who do not want to have AMI meters, while at the same time preserving the significant  
21 benefits of AMI for APS's remaining customers as described above.<sup>253</sup> Messrs.  
22 Woodward and Gayer claim that the AMI opt-out program is discriminatory. But it is  
23 not. It is cost-based. And despite the advantages that AMI meters provide for all  
24 customers, the Agreement proposes a reasonable opt-out program for those customers

25 <sup>248</sup> See Bordenkircher Settlement Rebuttal Testimony at 3.

26 <sup>249</sup> See Bordenkircher Settlement Rebuttal Testimony at 3-4; *see also* Tr. 636:24-637:5 (Bordenkircher).

27 <sup>250</sup> Tr. 606:6-12 (Bordenkircher).

28 <sup>251</sup> See Woodward Settlement Direct Testimony; Gayer Settlement Direct Testimony; and Ferre Settlement Direct Testimony.

<sup>252</sup> See Decision Nos. 73183 (May 24, 2012) and 71448 (Dec. 30, 2009).

<sup>253</sup> See Bordenkircher Direct Testimony at 7.

1 who do not want service through AMI meters, and should be approved.<sup>254</sup> The evidence  
2 does not support the assertions of Messrs. Woodward and Gayer, and their arguments  
3 should be rejected.

4 **A. Security and privacy of customer information is a top priority for the**  
5 **Company.**

6 The argument that AMI meters jeopardize the security and privacy of APS's  
7 customers is unfounded. Protecting customer information is a critical priority for APS,  
8 and to do so, APS complies with all Commission regulations, approved rate and service  
9 schedules, state statutes, and federal regulations regarding privacy and security of  
10 customer information.<sup>255</sup> Moreover, no party offered evidence that customer information  
11 had actually been compromised.

12 Just as with privacy, APS has been maintaining the cyber security of its critical  
13 systems and takes the security of its customers very seriously. APS has deep and  
14 extensive experience in this area and carefully assesses and mitigates cybersecurity  
15 risks, including those that may be brought about by the addition of new technology.  
16 Consistent with best industry practices, APS's security protocols are constantly  
17 reviewed both internally and by third parties, and are updated as necessary to protect  
18 against emerging threats.<sup>256</sup> APS takes all necessary precautions to maintain the security  
19 and privacy of its customers with and without AMI, assertions to the contrary  
20 notwithstanding.

21 **B. There is no evidence that AMI meters have caused fires in APS's**  
22 **service territory.**

23 Mr. Woodward's argument that AMI meters have caused increased fires in APS's  
24 service territory is unsubstantiated. Mr. Bordenkircher testified that "within the  
25 Company's service territory, which includes over 1.3 million meters, 12 fires have been  
26 alleged to have been caused by APS installed Elster AMI meters."<sup>257</sup> And of those 12

27 <sup>254</sup> See Settlement Agreement at Section 30.

28 <sup>255</sup> See Bordenkircher Settlement Rebuttal Testimony at 3-4.

<sup>256</sup> See Bordenkircher Settlement Rebuttal Testimony at 5.

<sup>257</sup> Tr. 666:16-19 (Bordenkircher).

1 alleged fires, a root cause analysis was conducted for each and it has been determined  
2 that something other than the meters caused the fires.<sup>258</sup> The evidence simply does not  
3 support Mr. Woodward's claim.

4 **C. APS's AMI meters meet all health and safety regulations.**

5 Mr. Woodward's arguments that AMI meters cause negative health effects  
6 through "noise" on electrical wavelengths and dirty electricity are misplaced. The  
7 evidence in the record shows that AMI meters are only one of many sources of noise. In  
8 fact, Mr. Erik Anderson testifying on behalf of Mr. Woodward stated that "[t]here are  
9 many different types of things that can cause noise on the line."<sup>259</sup> He further testified  
10 that any electronic device with a switch mode power supply can cause noise similar to  
11 an AMI meter.<sup>260</sup> This admission concedes that devices other than AMI may be to blame  
12 for any alleged noise. Thus, any allegations regarding noise or dirty electricity may be  
13 properly disregarded.

14 Mr. Woodward's second expert, Dr. Milham, made a similar admission when he  
15 testified that many household electronics cause the same health issues as AMI.<sup>261</sup> He  
16 testified that "all our modern electronic junk runs on DC, every computer, the little  
17 chargers for your cell phone . . . compact fluorescent lights are very, very bad."<sup>262</sup> Dr.  
18 Milham went on to state that variable frequency drives, variable speed pool pumps, or  
19 variable speed motors on an air conditioner are all bad for one's health.<sup>263</sup> Mr.  
20 Woodward's own witnesses shatter any supposed causal link between AMI and health  
21 concerns.

22 Additionally, the radio frequency (RF) utilized by AMI is regulated by the  
23 Federal Communications Commission (FCC). Mr. Bordenkircher testified that "the FCC  
24 regulates the safety of transmitting devices, and our meters comply with those

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25 <sup>258</sup> See Bordenkircher Settlement Rebuttal Testimony at 5.

26 <sup>259</sup> Tr. 790:8-13 (Anderson).

26 <sup>260</sup> Tr. 791:6-9 (Anderson).

27 <sup>261</sup> Tr. 945:8-946:14 (Milham).

27 <sup>262</sup> *Id.*

28 <sup>263</sup> *Id.*



1 regulations.”<sup>264</sup> Further, the Commission has spent over three years performing an  
2 inquiry regarding the health, safety and functionality of advanced meters.<sup>265</sup> As part of  
3 that inquiry, the Commission requested that the Arizona Department of Health Services  
4 (ADHS) conduct a study regarding advanced meters.<sup>266</sup> The resulting report published in  
5 November 2014 concluded that the advanced meters in use in Arizona (by APS and  
6 others) were operating within the Federal Communications Commission’s standards and  
7 were not likely to harm public health.<sup>267</sup>

8 **D. Benefits of APS’s AMI meters far outweigh the costs.**

9 Mr. Woodward’s argument that the Company’s AMI is not cost effective is  
10 flawed. Mr. Woodward cites one page from a 2015 shareholder slide presentation on an  
11 update to APS’s AMI system as the basis for his argument.<sup>268</sup> A review of Woodward  
12 Exhibit 10, however, reveals that the single slide addressed only one category of savings  
13 attributable to AMI, and did not purport to be a comprehensive conclusion on AMI’s  
14 benefits. Indeed, Mr. Woodward acknowledged during the hearing that APS had  
15 provided a cost/benefit study on the Company’s AMI metering in a data request that  
16 demonstrated a positive present value for AMI.<sup>269</sup> Mr. Woodward chose not to use or  
17 cite this study, and did not attempt to rebut the various benefits and costs savings that  
18 result from installing AMI identified in that study.<sup>270</sup> The fact is that APS’s AMI meters  
19 provide a multitude of benefits to customers that far outweigh the investment. That Mr.  
20 Woodward selectively relied on a single figure that only included savings from avoided  
21 field orders to connect or disconnect meters undermines the credibility of Mr.  
22 Woodward’s claims.<sup>271</sup>

23  
24 <sup>264</sup> Tr. 743:13-15 (Bordenkircher).

25 <sup>265</sup> See Docket No. E-00000C-11-0328.

26 <sup>266</sup> *Id.*

27 <sup>267</sup> See Bordenkircher Settlement Rebuttal Testimony, Attachment SBB-1SR at 29.

28 <sup>268</sup> Tr. 956:21-24 (Woodward), *see also* Woodward Exhibit 10.

<sup>269</sup> Tr. 974:20-975:10 (Woodward).

<sup>270</sup> Tr. 971:7-24 (Woodward).

<sup>271</sup> Tr. 970:9-18 (Woodward).

1                   **E.     The Agreement's opt-out proposal is not discriminatory.**

2           Lastly, Messrs. Woodward and Gayer failed to substantiate their allegations that  
3           the opt-out proposal adopted in the Agreement discriminates against customers by  
4           requiring a fee to participate. When customers voluntarily decide to opt out of AMI,  
5           APS incurs more cost to provide the same level of service that APS provides to  
6           customers with AMI.<sup>272</sup> Anecdotal commentary cannot overcome the weight of APS's  
7           careful investigation into its AMI-related costs.

8           Mr. Woodward cites A.R.S §40-334 as support, but this statute only prohibits  
9           public service corporations from establishing or maintaining any "unreasonable  
10          difference as to rates, charges, service, facilities, or in any other respect, either between  
11          localities or between classes of service" (emphasis added). The law permits utilities to  
12          establish "reasonable" differences as to rates and charges. This includes charging  
13          residential and non-residential customers differently, and charging customers different  
14          rates based on the different costs incurred to provide them service, such as charging  
15          AMI opt-out customers fees to collect the costs incurred to provide service without  
16          AMI. Contrary to Messrs. Woodward and Gayer's assertions, the opt-out proposal's  
17          eligibility limitations are reasonable and not discriminatory.

18                   **1.     The AMI opt-out is reasonably limited to residential customers.**

19          This distinction stems from the difference between commercial and residential  
20          customers and their usage. APS witness Bordenkircher testified that commercial  
21          customers are ineligible for the opt-out program because, "[c]ommercial customers tend  
22          to be some of our largest customers."<sup>273</sup> Because one of the main purposes for AMI  
23          metering is to increase visualization for a modernized grid, losing large gaps in data  
24          from larger commercial customers can be particularly difficult. APS witness  
25          Bordenkircher further testified that allowing large commercial customers to opt-out "has  
26          the potential for harming our overall reliability, including equipment overloads."<sup>274</sup>

27          <sup>272</sup> See Lockwood Settlement Rebuttal Testimony at 9.

28          <sup>273</sup> Tr. 587:24-25 (Bordenkircher).

<sup>274</sup> Tr. 588:1-3 (Bordenkircher).

1        Additionally, small commercial customers are also better served by AMI. APS  
2        witness Lockwood testified that small general service customers can change out  
3        frequently, and AMI “allows us to turn on and turn off remotely, and provides more  
4        information that our business customers often want to manage their business.”<sup>275</sup> It is  
5        also important to note that of the twelve settling parties that represent various  
6        commercial or industrial interests, none took issue with AMI opt-out eligibility during  
7        the hearing.

8                    **2.        AMI meters provide DG customers information, and help with**  
9                    **DG-caused reliability and planning needs.**

10        It is imperative to have production data from all rooftop solar systems to maintain  
11        reliability and load forecasting accuracy.<sup>276</sup> And AMI is vital to providing APS with  
12        metered data to support critical grid planning and operations. As APS witness  
13        Bordenkircher stated, “[i]t would not be timely or practical to collect this data manually,  
14        and significant lags in obtaining this information could complicate distribution system  
15        configuration and capacity planning, potentially resulting in outages or equipment  
16        overloads.”<sup>277</sup> He further testified that it is because of reliability concerns that “we have  
17        proposed as part of this comprehensive settlement agreement that the AMI opt-out  
18        program does not allow DG customers to opt out.”<sup>278</sup>

19        Importantly, AMI metering also provides timely energy usage and demand  
20        information to customers.<sup>279</sup> This is especially important for customers that adopt  
21        distributed technologies, like rooftop solar, so that the customers have the best  
22        opportunity for bill savings.<sup>280</sup> It is vital to have a grid that can integrate all home energy  
23        technologies, such as distributed generation, energy storage, and demand response.<sup>281</sup>  
24        AMI metering is fundamental to enabling this customer choice while mitigating impacts

25        <sup>275</sup> Tr. 155:4-10 (Lockwood).

26        <sup>276</sup> See Bordenkircher Settlement Rebuttal Testimony at 7.

27        <sup>277</sup> *Id.*

28        <sup>278</sup> Tr. 587:3-9 (Bordenkircher).

<sup>279</sup> See Bordenkircher Settlement Rebuttal Testimony at 7.

<sup>280</sup> *Id.*

<sup>281</sup> See Bordenkircher Settlement Rebuttal Testimony at 7-8.



1 to reliability. APS witness Lockwood testified that “solar customers are unique because  
2 they actually produce energy and deliver it onto the grid, and as the number of solar  
3 customers grows, it’s imperative that we have more information about what is  
4 happening in the grid real-time so that we can manage our system safely and  
5 effectively.”<sup>282</sup> Lastly, although there are numerous parties representing solar interests in  
6 this case, no solar party voiced opposition to the AMI opt-out proposal nor advocated  
7 that it be available for DG customers at the hearing.

8 **VI. THE PROCESS WAS FAIR AND INCLUSIVE AND LITIGATION IS**  
9 **NOT IN THE PUBLIC INTEREST.**

10 Resolving this matter through settlement, rather than protracted litigation, avoids  
11 expending significant resources to achieve a suboptimal outcome.<sup>283</sup> Although a litigated  
12 outcome is at times the only alternative, it almost always results in a binary, win/lose  
13 conclusion that does not reflect multiple perspectives.<sup>284</sup> And through settlement, parties  
14 can obtain outcomes that they might not be able to obtain in a litigated case, such as  
15 “concessions by the company” as one intervenor noted in relation to this Settlement,<sup>285</sup>  
16 or “the brokered peace relating to roof-top solar” as RUCO noted.<sup>286</sup> Despite the  
17 inherent benefits of settlement, a handful of parties criticized the settlement process and  
18 the fact of the settlement itself. These criticisms are not supported by the evidence and  
19 reflect a misunderstanding of the Commission’s process.

20 **A. The Settlement process was fair, open and inclusive.**

21 Settlement discussions in this case began in early February and concluded in late  
22 March. All intervenors were provided notice of the settlement meetings and most  
23 participated.<sup>287</sup> Indeed, the discussions needed to be held in the ACC Hearing Rooms,  
24 rather than the Commissioners conference room where such discussions are routinely

25 <sup>282</sup> Tr. 159:2-160:1 (Lockwood).

26 <sup>283</sup> Tr. 1265:9-11 (Abinah); *see also* Hendrix Settlement Direct Testimony at 2.

27 <sup>284</sup> Tr. 1092:23-1093:16 (Tenney), *see also* Lockwood Settlement Rebuttal Testimony at 8.

28 <sup>285</sup> Tr. 1165:11-17 (Schlegel).

<sup>286</sup> Tenney Settlement Direct Testimony at 9.

<sup>287</sup> With two exceptions for pro per intervenors, those parties that did not participate in the settlement discussions, such as Tucson Electric Power Company, were not generally active in the proceeding.

1 held, in order to accommodate the large number of intervenors who participated. The  
2 then-acting Utilities Director, Mr. Abinah, led the settlement discussions.<sup>288</sup>

3 Although not all the parties ultimately signed the Agreement, all parties had the  
4 opportunity to make their concerns known, and everyone negotiated in good faith.<sup>289</sup>  
5 Despite significantly divergent positions and interests, the parties engaged in open,  
6 transparent, and arm's-length negotiations over the nearly three month process.<sup>290</sup>  
7 Several witnesses agreed, testifying that the process was fair, including AURA witness  
8 Patrick Quinn,<sup>291</sup> ACAA witness Cynthia Zwick,<sup>292</sup> AIC witness Gary Yaquinto,<sup>293</sup>  
9 RUCO witness David Tenney,<sup>294</sup> and ACC Staff witness Abinah.<sup>295</sup> As a result of this  
10 robust process, the settling parties testified that the outcome was just, reasonable, and in  
11 the public interest.<sup>296</sup>

12 Even certain non-settling parties agreed that the process was conducted in a fair  
13 manner, and that parties had the opportunity to be heard and have their issues fairly  
14 considered. AARP's representative John Coffman, testified that the "settlement process  
15 allowed for a thorough and comprehensive discussion of all major issues."<sup>297</sup>  
16 Additionally, Jeff Schlegel for SWEEP stated, "I found the settlement discussions to be  
17 open, transparent, and inclusive of all parties who desired to participate."<sup>298</sup> Lastly, even  
18 ED-8/McMullen witness Jim Downing acknowledged the fact that the negotiations were  
19 open and transparent:

20 Q. [Was ED8 and McMullen] allowed to participate in the settlement  
21 process in this case?  
22 A. We were.

23 <sup>288</sup> Tr. 1274:16-19 (Abinah).

<sup>289</sup> See Walker Settlement Direct Testimony at 2; Abinah Settlement Direct Testimony at 2.

<sup>290</sup> See Kobor Settlement Direct Testimony at 1; Hendrix Settlement Direct Testimony at 2.

<sup>291</sup> See Quinn Settlement Direct Testimony at 2; Tenney Settlement Direct Testimony at 2.

<sup>292</sup> Zwick Settlement Direct Testimony at 3.

<sup>293</sup> Yaquinto Settlement Direct Testimony at 2.

<sup>294</sup> Tr. 1094:5-1095:3 (Tenney).

<sup>295</sup> Tr. 1281:2-1282:13 (Abinah).

<sup>296</sup> See Tr. 1266:6-16 (Abinah); Tr. 1274:16-19 (Abinah); *see also* Higgins Settlement Direct Testimony at 2.

<sup>297</sup> See Coffman Settlement Direct Testimony at 3.

<sup>298</sup> See Schlegel Settlement Direct Testimony at 2.



1 Q. So when negotiations went on, they were invited to participate in those  
negotiations, correct?

2 A. Yes.

3 Q. And those negotiations, would you characterize them as being open and  
transparent negotiations?

4 A. I think so, yes.

5 Q. And ED8 and McMullen had an opportunity to present its issues for  
consideration in that settlement process, correct?

6 A. Yes.<sup>299</sup>

7 **B. Criticisms of the Settlement process fall short.**

8 A few discrete individual parties have suggested that they had concerns regarding  
9 the settlement process. Some contend that there is something wrong with starting the  
10 settlement process by discussing the revenue requirements issues first, followed by the  
11 rate design issues once that testimony was filed. Others complain about the room and  
seating arrangements. Others oppose the very notion of settlement.

12 These general aspersions about the settlement process should not be afforded any  
13 weight. First, although the discussions were initially bifurcated into separate revenue  
14 requirement and rate design discussions, this was largely because of the complex rate  
15 design issues raised by rooftop solar, among other items, and the reality that not all  
16 parties might be interested in both aspects of the case. Moreover, there was no separate  
17 revenue requirement settlement. Instead, every party had ample opportunity to consider  
18 the entire settlement package as a whole.

19 Second, many participants have testified that the process was fair, open, and  
20 transparent, even some who nonetheless opposed the Settlement. This suggests that  
21 complaints about the process might be colored, if not driven, by dissatisfaction with the  
22 Settlement outcome, not the process itself. The few parties who oppose discrete issues in  
23 the Settlement Agreement were provided the opportunity to fully and fairly present their  
24 concerns in written testimony and at the evidentiary hearing, obviating any potential  
25 concerns about the process.

26 Lastly, to obtain a settlement of a large, multi-party case with 40 parties requires  
27 by its nature extensive dialogue and hard work between and amongst parties. There is

28 <sup>299</sup> Tr. 575:12-576:5 (Downing).



1 nothing procedurally or substantively improper about one-off meetings that don't  
2 involve all parties, or meetings among smaller subsets of parties with unique interests.  
3 Settlements are not open meetings during which elected officials deliberate. Instead,  
4 they are confidential negotiations between litigants with the outcome of those  
5 negotiations being made public and fully vetted in an evidentiary hearing. The testimony  
6 has made clear that all parties were provided the opportunity to raise and discuss any  
7 issues they so chose during the Settlement negotiations, and had the opportunity to  
8 present their evidence at the hearing.<sup>300</sup> Even Mr. Albert Acken, representing the  
9 Districts, acknowledged that they had the opportunity to present evidence in this case,  
10 stating that "we chose not to introduce direct testimony . . . [a]nd that is absolutely the  
11 choice we make as to how to present our case."<sup>301</sup> Criticisms regarding the process are  
12 not only unsupported by the evidence, but overlook the role of settlements in ACC  
13 proceedings and the important safeguards built into this administrative process that  
14 protect the public interest.

15 **VII. REFUNDING DSM FUNDS MITIGATES FIRST YEAR RATE IMPACTS**  
16 **AND WON'T UNDERMINE EXISTING DSM PROGRAMS.**

17 To mitigate the first-year impact of any rate increase ordered in this proceeding  
18 and return customer money that is not currently being used, the Settling Parties agreed  
19 that \$15 million collected through the DSMAC should be refunded to customers. The  
20 \$15 million represents funds that have been collected, but have not yet been spent or  
21 allocated for use in the DSM budget. These funds are in the DSMAC balancing account  
22 and the Settling Parties agreed that the money should be returned to customers now,  
23 rather than wait for a subsequent proceeding. Whether to do so is always within the  
24

25 <sup>300</sup> Tr. 45:2-7 (Boehm); Tr. 74:17-21 (Van Cleve); Tr. 184:20-185:7 (Lockwood); Tr. 722:12-23  
26 (Coffman); Tr. 906:18-20 (Gayer); Tr. 988:8-10 (Woodward); Tr. 1164:19-25 (Schlegel); *see also*  
27 Lockwood Settlement Direct Testimony at 3-4; Coffman Settlement Direct Testimony at 3; Zwick  
28 Settlement Direct Testimony at 3; Yaquinto Settlement Direct Testimony at 2; Quinn Settlement Direct  
Testimony at 2; Walker Settlement Direct Testimony at 1-2; Tenney Settlement Direct Testimony at 2;  
Abinah Settlement Direct Testimony at 2-5; Kobor Settlement Direct Testimony at 1.

<sup>301</sup> Tr. 1314:1-20 (Acken).

1 Commission's discretion. But refunding the money now would provide a degree of  
2 gradualism for any rate increase ordered in this matter.

3 Contrary to assertions put forth by SWEEP, the Commission has not decided how  
4 these funds should be used. Nor has the Commission allocated the \$15 million for use in  
5 any future DSM budget. *See* Decision Nos. 75679 (Aug. 5, 2016) and 75323 (Nov. 25,  
6 2015). Instead, the procedural language that SWEEP relies upon only states that using  
7 the over-collected funds to reduce the DSMAC "shall be considered as one option."<sup>302</sup>

8 Finally, using these funds to mitigate the rate increase does not impact existing  
9 DSM programs or customers. The approved budget for 2016 has been fully funded. And  
10 to date, the Commission has not made a decision on APS's proposed 2017 DSM  
11 Implementation Plan or budget. To the extent needed, the Commission has the ability to  
12 modify the level of the DSMAC to collect sufficient funds to accomplish the  
13 Commission's priorities.

14 **VIII. THE 90-DAY TRIAL PERIOD FOR RATE AVAILABILITY BALANCES**  
15 **CUSTOMER CHOICE AND MODERNIZING RATES.**

16 Paragraph 19.1 of the Agreement details the transition to the new rates under the  
17 Settlement. It provides that after May 1, 2018, new customers consuming more than 600  
18 kWh a month will take service under a time-of-use rate (TOU-E) or a three-part time-of-  
19 use with demand rate (R-1 or R-3) for 90 days.<sup>303</sup> After this 90-day trial period, the new  
20 customer can opt to take service under R-Basic.

21 The goal of Paragraph 19.1 is to achieve a balance between modernizing rates  
22 and preserving customer choice.<sup>304</sup> The Settlement does not modernize APS's rate  
23 structure, but does make progress towards doing so through this provision. The 90-day  
24 trial period exposes customers to modern rates that are time and demand-differentiated.  
25 At the same time, it still recognizes the importance of customer choice by: (i) not  
26 initiating the 90-day trial period until May 1, 2018; and (ii) permitting customers to

27 <sup>302</sup> *See* Decision No. 75323 at 17.

28 <sup>303</sup> *See* Coffman Settlement Direct Testimony at 4-6; Schlegel Settlement Direct Testimony at 10.

<sup>304</sup> *See* Lockwood Settlement Rebuttal Testimony at 9-10.



1 return to non-time sensitive, two-part rates that have a flat rate for energy. As APS  
2 witness Ms. Lockwood testified: "I think the foundation of this 90-day trial period is  
3 balancing the interest of an individual customer and what that customer would like to  
4 see and the . . . benefit[s to] all customers by moving to advanced rates."<sup>305</sup>

5 The data show that a significant majority of APS customers will save money on  
6 these modern rates, and that these savings occur *before* customers try to modify their  
7 behavior and shift usage into off-peak periods with lower rates.<sup>306</sup> Nonetheless, AARP  
8 and SWEEP oppose the 90-day trial period. Yet neither party offered credible evidence  
9 supporting their opposition. Instead, they assert that customers should have choices,  
10 including the choice of a taking service under a flat rate going forward. Their assertions  
11 are misplaced, and do not consider the importance of modernizing rate design or how  
12 customer rate choices impact all customers and the system as a whole.

13 Customers will still have sufficient options and choices under the rate structures  
14 agreed to by the settling parties. Between the rate effective date and May 1, 2018, all  
15 customers have the choice of remaining on their current rate or switching to any new  
16 rate for which they are eligible. After May 1, 2018, the flat rate, R-Large, will be frozen  
17 and closed to new customers. New customers whose annual usage will be above 1,000  
18 kWh per month must select either TOU-E, R-1, R-3 or R-Tech if they qualify.<sup>307</sup> Thus,  
19 similar to today all residential customers without distributed generation will have a  
20 minimum of three rate plan choices. Very small customers, those whose average  
21 monthly usage is 600 kWh or below, are exempt from the 90-day trial period. This class  
22 of customers are less likely to benefit as much from time differentiated or demand rates  
23 due to their very low usage. Keeping this low-usage option for the smallest of customers  
24 protects many limited-income customers, apartment dwellers, and other low usage  
25 customers.

26  
27 <sup>305</sup> Tr. 172:21-173:3 (Lockwood).

28 <sup>306</sup> Tr. 169:21-170:7 (Lockwood); Tr. 858:19-860:14 (Snook).

<sup>307</sup> See Settlement Agreement at Paragraph 19.1.



1 In addition to the flexibility provided to customers in the Settlement, the 90-day  
2 trial also seeks to accomplish real progress in modernizing rates for the benefit of all  
3 customers. When customers react to rates that are time-differentiated, and in particular  
4 rates with demand components, they shift load to off-peak periods, taking service when  
5 there is excess supply and capacity. This not only permits short-term cost savings with  
6 lower fuel costs, but also the possibility that APS can avoid building new infrastructure  
7 to meet growing peak demand.<sup>308</sup> It is important to recognize the choices of individual  
8 customers, but that recognition must be balanced with the resulting impacts for all  
9 customers. The Settlement does not adopt APS's desired outcome—universal, time-  
10 differentiated demand rates for all customers. Nor does it adopt the outcome sought by  
11 others—no change to rate design and all customers can continue to take service under  
12 the same rate they can select today. Instead, the 90-day trial period is a compromise  
13 designed to achieve a balance and, in APS's opinion, is in the public interest.

14 **IX. THE 3-8 ON-PEAK TIME PERIOD IS EVIDENCE BASED AND BETTER**  
15 **FOR CUSTOMERS THAN CURRENT ON-PEAK PERIODS.**

16 Under the settlement, APS “will have fewer on-peak hours” and on-peak hours  
17 “that are aligned with APS's highest peaks and costs.”<sup>309</sup> The Settlement will also add  
18 more off-peak holidays. This is a significant reduction from the current rate schedules  
19 which have on-peak periods of noon to 7 p.m. and 9 a.m. to 9 p.m.<sup>310</sup> The (pre-  
20 Settlement) Direct Testimony of APS witness James Wilde demonstrates the need to  
21 shorten the existing on-peak time frames and extend the period further into the evening  
22 hours:

23 Put simply, the current TOU on and off-peak periods send the wrong price  
24 signal at the wrong time. They incent customers to conserve energy mid-  
25 day and early afternoon when customers demand and wholesale prices are  
26 low and energy is abundant on the regional system, and fail to encourage

27 <sup>308</sup> See Miessner Settlement Rebuttal Testimony at 12-13.

28 <sup>309</sup> Tr. 341:17-19 (Miessner).

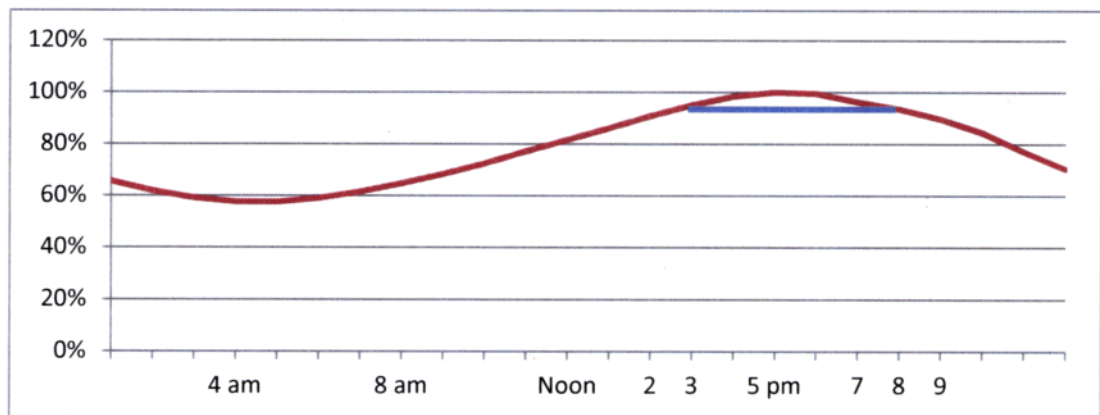
<sup>310</sup> See Wilde Direct Testimony at 12.

energy and demand reductions in the evening hours when wholesale prices are high and system demand is peaking.<sup>311</sup>

Mr. Wilde further testified that “[i]n non-summer months particularly, the peak is generally expected to occur between 7 p.m. and 9 p.m.”<sup>312</sup>

During the hearing, APS witness Mr. Miessner further explained that APS has “a very broad peak.”<sup>313</sup> In other words, during the summer months APS’s load often remains within 5% of the peak hour for 4-5 hours. The result is that APS has long, flat on-peak time periods that must run later into the evening.<sup>314</sup> Figure 1 in Mr. Miessner’s Settlement Rebuttal Testimony demonstrates APS’s broad summer peak.

Figure 1: APS System Summer Peak Hours



In addition, the heat map in Figure 2 shows that this trend will only become more pronounced going forward, with the darkest red showing the periods of highest load over the 2020 to 2035 period.

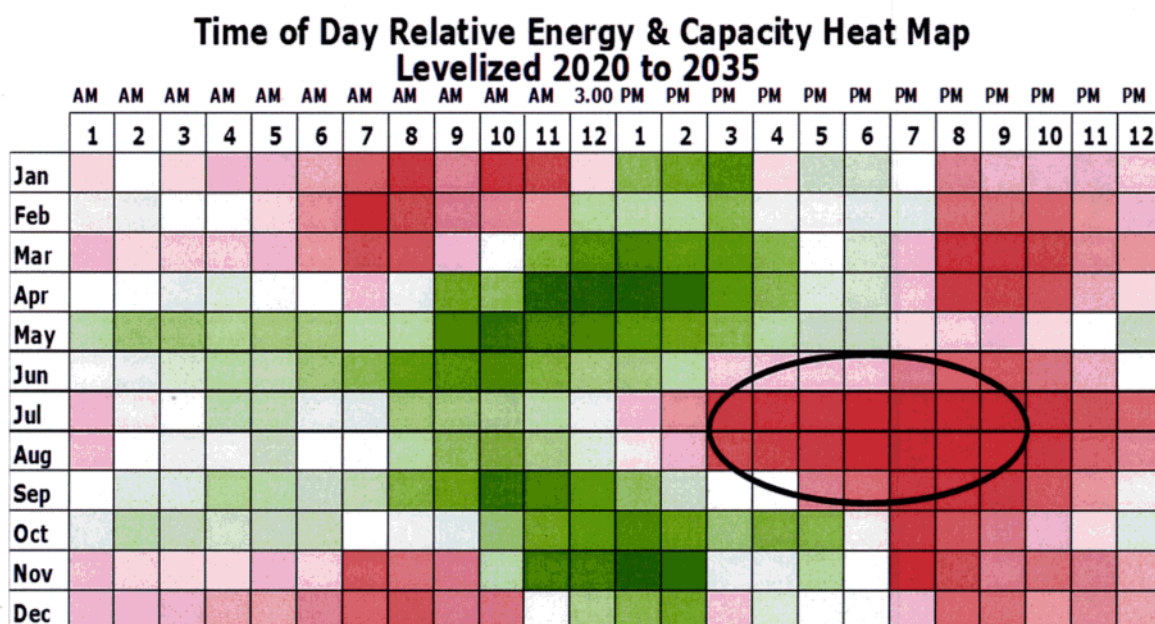
<sup>311</sup> *Id.* at 13-14.

<sup>312</sup> *Id.* at 14.

<sup>313</sup> Tr. 405:25-406:3 (Miessner).

<sup>314</sup> See Miessner Settlement Rebuttal Testimony at 9.

Figure 2: APS System Peak Hours



Despite this data, SWEEP contends that the proposed 3-8 p.m. on-peak time period will be inconvenient and unnecessarily cause high bills for consumers.<sup>315</sup> SWEEP posits that a shorter window of 4-7 p.m. would be more customer-friendly, and that the peak today is closer to 7 p.m. Such arguments have a superficial appeal, but they are not consistent with system needs and costs.

First, APS has established that given its broad peak, loads remain very near peak levels (within 5%) until 8-9 p.m. in the evening and as demonstrated above, the record clearly supports a peak period from 3 p.m. to 9 p.m. Perhaps more importantly, this late-peak trend is going to continue.<sup>316</sup> Time-of-use periods should not be set looking backward, but instead reflect anticipated conditions. Forward-looking time-of-use periods maximize the advantage that results when customers shift load off-peak—namely that APS might be able to avoid, or at least delay, constructing new infrastructure if a sufficient number of customers fundamentally change their usage. The

<sup>315</sup> During the hearing, AARP joined in SWEEP's opposition to the 3-8 on-peak period, but it offered no separate evidence in support of its position. Tr. 697:9-18.

<sup>316</sup> Tr. 405:24-406:5; see Miessner Settlement Rebuttal Testimony at 9; see also Figure 2 above.



1 existing peak is already served by existing infrastructure. Shifting load off of the  
2 existing, retrospective peak does not provide the deferral and delay-related benefits that  
3 accrue with a well-designed, prospective time-of-use period. Forward-looking time-of-  
4 use periods also prevent the need to change peak periods in every rate proceeding,  
5 minimizing the need to extensively re-educate customers each time.

6 Second, the proposed time-of-use period is much shorter than APS's existing on-  
7 peak periods, and customers have proven they have the ability to adapt and manage on  
8 these rates. For example, APS has over 570,000 customers on its current time-of-use and  
9 demand rates, and they are the most popular for customers signing up for service.<sup>317</sup>  
10 APS believes that customers can and will respond to price signals in a meaningful  
11 manner.

12 Third, if customers need to use energy during on-peak periods, the rate should  
13 properly align with the cost of providing them energy during the on-peak time. Setting  
14 an on-peak period that does not reflect the actual peak will only provide customers a  
15 price signal to shift their load within the peak period. Usage shifts within the peak period  
16 do not reduce system costs, and ultimately undermine the entire purpose of an on-peak  
17 period in rates.

18 Finally, the agreed-upon rate designs are carefully crafted to achieve the stated  
19 amount of revenue and still preserve the economics of rooftop solar. Any change to the  
20 on-peak periods has the potential to disrupt this careful balance, with cascading rate-  
21 design implications that will significantly undermine the result desired by numerous  
22 parties, and particularly the solar intervenors.

23 **X. THE SETTLEMENT AGREEMENT'S BASIC SERVICE CHARGES ARE**  
24 **REASONABLE, COST-BASED, AND FURTHER GOOD RATE POLICY.**

25 If adopted, the Agreement will reduce BSCs for more than 50% of APS's  
26 residential customers.<sup>318</sup> Specifically, the Agreement will reduce the \$17 monthly BSCs

27 <sup>317</sup> See Derstine Direct Testimony at 10.

28 <sup>318</sup> Tr. 299:19-300:18 (Lockwood); Tr. 1153:15-21 (Schlegel).

1 currently paid by customers on APS's TOU and demand rate to \$13.<sup>319</sup> And instead of  
2 the \$24 that APS requested as a higher monthly BSC for many customers in its initial  
3 application, the only increase will be from the \$8.67 paid by current E-12 customers to  
4 \$10, \$15, and \$20 under the new R-XS, R-Basic, and R-Basic Large rates, respectively,  
5 depending on their usage level. Each of these BSC levels is well within any cost basis  
6 and further good rate design policy.

7       **A. The Settlement BSCs are reasonable and cost-based.**

8       APS witness Leland Snook testified that APS's cost structure warrants a basic  
9 service charge of \$28.<sup>320</sup> In other words, APS's incurs approximately \$28 per month in  
10 fixed costs to serve its customers as measured by the Basic Customer Method.<sup>321</sup> Thus,  
11 any BSC below \$28 is justified by cost. That the Settlement proposes BSCs below \$28 is  
12 not an indication that the Settlement BSCs are improper, but instead that the agreed-  
13 upon BSCs are within a cost basis and reflect compromises with other parties. Indeed,  
14 although APS witness Snook testified that applying a straight basic customer method  
15 would result in a \$28 BSC, the Commission's policy is to not apply a particular BSC  
16 method, but instead use both the basic customer and minimum system methods to  
17 inform Commission policy decisions.<sup>322</sup>

18       In addition to being cost-based, the significant BSC reductions, and modest  
19 increases, support a finding that the Settlement BSCs are reasonable. As witnesses  
20 testified, the Settlement would reduce BSCs for the majority of APS's residential  
21 customers.<sup>323</sup> Certain BSCs do increase under the Settlement, but those increases are  
22 relatively modest, and the only rate with a higher increase—R-Basic Large—is for those  
23 customers who consume more electricity (over 1,000 kWh per month).

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25 <sup>319</sup> Tr. 389:10-17 (Miessner); Tr. 798:9-14 (Snook); *see also* Quinn Settlement Direct Testimony at 5;  
26 Tenney Settlement Direct Testimony at 8.

27 <sup>320</sup> Tr. 802:15-17 (Snook).

28 <sup>321</sup> *Id.*; *see also* Tr. 845:19-22 (Snook).

<sup>322</sup> Tr. 890:20-25 (Snook).

<sup>323</sup> Tr. 299:19-300:18 (Lockwood); Tr. 1153:15-21 (Schlegel); Tr. 709:24-25 (Coffman); *see also*  
Tenney Settlement Direct Testimony at 8.

1 In all circumstances, customers receiving an increase to their BSC can opt to  
2 receive service under the new TOU-E rate or a time-based demand rate, all with BSCs of  
3 \$13. These lower BSCs incentivize customers to leave R-Basic Large, which has a BSC  
4 of \$20.<sup>324</sup> As acknowledged by SWEEP witness Schlegel, TOU-E provides customers  
5 opportunities to save money:

6 Q: . . . One of the ways in a TOU rate that customers can control their bill  
7 is by reducing their total kilowatt hours, correct?

8 A: That's correct.

9 Q: And also, they can control their bills in a TOU rate by shifting some of  
10 their rate from an on-peak hour to an off-peak hour, correct?

11 A: That's correct.

12 Q: And then under the settlement structure that we have here in this case,  
13 they can also lower their basic service charge compared to the traditional  
14 volumetric rate, correct?

15 A: . . . you mean from the R-Basic rate . . . to the TOU-E from \$15 to \$13,  
16 that's correct.<sup>325</sup>

17 Indeed, most customers will save money each month by moving to TOU-E.<sup>326</sup> Mr.  
18 Schlegel also acknowledged that customers taking service under one of the time-based  
19 demand rates have similar opportunities to save money:

20 Q: For such a rate, customers would also have several ways of controlling  
21 their bill. For example, they would be able to reduce their peak kilowatt  
22 demand, correct?

23 A: They would.

24 Q: And they could also reduce their total kilowatt hours, correct?

25 A: Correct.

26 Q: And then as with the TOU, they could shift some of their usage from  
27 on-peak to off-peak hours, correct?

28 A: Correct.<sup>327</sup>

Finally, to the extent that the Settlement BSCs do cause strain on low-income customers,  
the Settlement increases and simplifies low-income assistance to better assist this  
segment of customers.<sup>328</sup>

The Settlement BSCs reflect a compromise that recognizes the policy position  
taken by each party. The Settlement BSCs are a function of consensus, promote modern

<sup>324</sup> See Settlement Agreement at Paragraph 17.3.

<sup>325</sup> Tr. 1151:4-19 (Schlegel).

<sup>326</sup> Tr. 302:15-22 (Lockwood).

<sup>327</sup> Tr. 1152:5-15 (Schlegel).

<sup>328</sup> See Settlement Agreement at Section XXIX.



1 rate design, and are consistent with Commission decisions in the recent TEP and UNS  
2 rate proceedings.<sup>329</sup> Although no settlement will satisfy every party with regards to  
3 BSCs, the Settlement BSCs in this proceeding come close.

4 **B. The non-settling parties' BSC objections overlook fixed costs and**  
5 **would risk exacerbating the cost shift.**

6 Two parties—AARP and SWEEP—raised concerns about the Settlement  
7 BSCs.<sup>330</sup> The first concern is that the Settlement BSCs would reduce customers'  
8 incentive to conserve. Other than simple statements, however, this argument was not  
9 explored in depth during the hearing. Moreover, to the extent the facts support a BSC of  
10 \$28, the Settlement offers far more conservation than the evidence would suggest.  
11 Finally, the argument regarding conservation overlooks that the majority of customers  
12 would pay a lower BSC under the Settlement, suggesting that on balance, the Settlement  
13 achieves more conservation than the status quo. To the extent that further discussions  
14 regarding conservation should occur, APS submits that those discussions are better held  
15 in the context of dockets designed to set policy, such as APS's Demand Side  
16 Management proceedings.

17 SWEEP also asserts that the Settlement BSCs are not cost based, and that APS  
18 customers should pay a BSC of approximately \$8 per month. SWEEP's analysis,  
19 however, is flawed. It also overlooks the serious policy consequences if BSCs  
20 plummeted to \$8 across the board.

21 **1. SWEEP's proposed BSC level does not account for fixed costs**  
22 **actually incurred to serve customers.**

23 In calculating what BSC APS customers should pay, SWEEP excluded two key  
24 types of facilities: the service drop and customer facilities.<sup>331</sup> Indeed, SWEEP witness  
25 Schlegel admitted that the Settlement R-Basic rate would not recover all of APS's fixed

26 <sup>329</sup> Tr. 342:16-18 (Miessner); *see also* Tenney Settlement Direct Testimony at 9.

27 <sup>330</sup> AARP did not raise concerns regarding the \$20 BSC for the new R-Basic Large class. *See* Direct  
28 Settlement Testimony of John Coffman at 3-4.

<sup>331</sup> Tr. 801:16-802:9 (Snook); Tr. 843:21-844:6 (Snook).

1 costs.<sup>332</sup> Yet, the service drop and customer facilities should be included when  
2 calculating a BSC under the basic customer method.<sup>333</sup> They are fixed costs that APS  
3 incurs to serve a customer. In fact, as discussed during the hearing, Professor  
4 Bonbright's description of the basic customer method—the minimum starting point for  
5 calculating a BSC—includes the "drop wire," which APS refers to as the service drop.<sup>334</sup>  
6 Thus, a primary source (if not *the* primary source) of rate design theory supports the  
7 Settlement's calculation of BSCs.

8 **2. Due to DG, among other industry changes, placing fixed costs**  
9 **in volumetric charges unduly risks cost shifts.**

10 SWEEP nonetheless argues that just because a cost is fixed does not mean it  
11 should be assigned and collected on an individual customer basis. While APS generally  
12 supports aligning fixed and variable costs, APS recognizes the policy consideration  
13 underlying SWEEP's assertion; APS's calculation of fixed costs totals \$28 per month,  
14 but just as SWEEP would not include all fixed costs in the BSC, APS only proposed a  
15 BSC of \$24 for certain rates in its initial application. Perhaps more importantly, the  
16 Settlement BSCs are far lower than \$28 or even \$24 a month *and* the Settlement would  
17 *reduce* BSCs for the majority of APS customers. Thus, the Settlement supports, and  
18 even furthers, SWEEP's position that fixed costs do not necessarily warrant fixed  
19 recovery.

20 Another critical issue related to fixed cost recovery and rate design is the cost  
21 shift, a topic overlooked by SWEEP. Throughout the history of electric utility rate  
22 design, the nature of customer usage provided more flexibility when determining which  
23 costs were collected through a customer charge and which costs were collected through  
24 a volumetric charge. But distributed generation, and other significant transformations to  
25 customer usage, changed all of that. With distributed generation, customers are able to  
26 self-supply a portion of their volumetric needs. But they do not permit a utility to avoid

27 <sup>332</sup> Tr. 1153:8-11 (Schlegel).

28 <sup>333</sup> Tr. 801:16-802:9 (Snook); Tr. 843:21-844:6 (Snook).

<sup>334</sup> Tr. 850:8-851:2 (Snook).



1 fixed costs. This dynamic limits the flexibility previously available when making  
2 decisions about the nature and size of basic service charges.

3 Aggressively small basic service charges, such as those urged by SWEEP,  
4 increase the magnitude of costs that DG shifts to customers without DG. In this rate  
5 case, the residential rate increase is significantly higher than the average increase—  
6 4.54% for residential customers compared to an average bill impact of 3.28%—because  
7 of distributed generation.<sup>335</sup> This higher rate increase does not result from the Settlement  
8 per se, but from the underlying rate-design caused cost shift that the Settlement  
9 Agreement begins to moderate; APS supports the Settlement as an appropriate balance  
10 of competing policy considerations. Nonetheless, the Settlement makes clear that relying  
11 too heavily on a volumetric charge to collect fixed costs heightens the consequences of  
12 the cost shift for customers, a cost shift that is spread to all customer segments,  
13 including limited income customers. APS believes that the question of how to align  
14 fixed costs with fixed charges should be considered carefully, and that the risk of  
15 imposing a cost shift on all customers be included in that consideration.

16 **XI. APS SUPPORTS STAFF'S FUEL AND POWER PURCHASE**  
17 **PROCUREMENT AUDIT RECOMMENDATIONS, WITH TWO**  
18 **PROPOSED CHANGES AGREED TO BY STAFF**

19 ACC Staff consultant Dennis J. Schumaker audited APS's fuel and purchase  
20 power activities as required by the Commission in APS's last general rate case.<sup>336</sup> Staff  
21 witness Schumaker testified that the audit "did not identify any significant areas of  
22 concern in either the management activities or financial activities review of APS's fuel  
23 and purchased power activities."<sup>337</sup> He further testified that he did not identify "any  
24 significant areas of concern regarding the plan for administering the PSA  
25 mechanism."<sup>338</sup> Staff witness Schumaker made six recommended findings primarily

26 <sup>335</sup> See Lockwood Settlement Direct Testimony at 4; Miessner Direct Testimony at 12; Lockwood Direct  
27 Testimony at 4.

28 <sup>336</sup> See Decision No. 73183.

<sup>337</sup> See Schumaker Fuel Audit Direct Testimony at 2.

<sup>338</sup> *Id.*



1 related to improving documentation of certain processes related to fuel and power  
2 procurement. APS supports these recommendations with two proposed changes.

3 First, Recommendation No. III-2 suggests that APS conduct an audit of its PSA  
4 filings in the next twelve months. APS witness Ms. Lockwood recommended that this  
5 time frame be extended to eighteen months in order to allow APS sufficient time to fully  
6 implement the other recommendations of Staff witness Schumaker before auditing the  
7 PSA filings.<sup>339</sup> Staff witness Schumaker testified that this suggested modification made  
8 sense, and he accepted APS's proposed change.<sup>340</sup>

9 Second, Recommendation No. III-5 proposed that APS's systems be reconfigured  
10 to disallow transactions when a counterparty is financially overexposed. APS opposed  
11 this recommendation.<sup>341</sup> APS witness Ms. Lockwood testified that this recommendation  
12 could result in unintended negative consequences to reliability and explained that APS  
13 has other mechanisms in place to address this concern.<sup>342</sup> Staff witness Schumaker  
14 testified that he did not have a problem removing this recommendation from his report,  
15 noting that APS had built into its system other ways to flag potential credit and over  
16 exposure problems.<sup>343</sup>

17 In sum, Staff witness Schumaker testified that he agreed with APS's proposed  
18 modifications to Staff's recommendations. Accordingly, APS requests that the Hearing  
19 Officer recommend approval of Staff witness Schumaker's recommendations in the fuel  
20 and purchase power audit as modified by APS.

## 21 **XII. CONCLUSION**

22 The Settlement Agreement would result in just and reasonable rates, and adopting  
23 it is in the public interest. Instead of litigating their vast differences, the evidence  
24 demonstrates that a large number of parties, representing widely-diverse perspectives,  
25

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26 <sup>339</sup> See Lockwood Settlement Rebuttal Testimony at 10.

27 <sup>340</sup> Tr. 735:14-736:2 (Schumaker).

28 <sup>341</sup> See Lockwood Settlement Rebuttal Testimony at 11.

<sup>342</sup> *Id.* at 10-11.

<sup>343</sup> Tr. 737:6-11 (Schumaker).

1 came together in a transparent and fair process to collaborate on resolving difficult  
2 policy issues. As a result of significant, interrelated concessions from all parties on  
3 numerous issues, the parties were able to agree upon a moderate rate increase; a slow,  
4 but tangible beginning for rate modernization; a carefully-crafted set of deferrals that  
5 preserve financial stability for the Company and rate stability for customers; more rate  
6 options for residential and commercial customers; and, a truce on solar-related disputes  
7 that could enhance regulatory stability and open the door for more collaboration and less  
8 litigation.

9       Substantial evidence supported this compromise resolution. Nonetheless, some  
10 parties would not settle. Even though the Settlement Agreement reflects a middle ground  
11 on basic service charges, AMI opt-out charges, rate transition, and time-of-use periods,  
12 among other issues, these non-settling parties were unwilling to move off their litigation  
13 positions and accept an outcome that reflected all parties' perspectives. It is beyond  
14 doubt that doing so is entirely within each party's discretion. But APS is confident that  
15 the record supports the Settlement Agreement, and that the compromise outcome  
16 proposed by the Settlement reflects the best policy for APS's customers and Arizona as  
17 a whole.

18       Finally, EFCA's proposal to create an optional rate for E-32 L customers should  
19 be rejected. This optional rate would remove all of the protections in the E-32 L rate.  
20 These protections, however, are cost based, and protect E-32 L customers from the  
21 inevitable cost shift that would occur if a subset of E-32 L customers reduced their  
22 demand beyond the cost savings they bring to the system. Perhaps most importantly,  
23 removing the protections would create another NEM-like cost shift. Just as Arizona has  
24 begun unwinding NEM, EFCA would reintroduce the inevitable customer inequity and  
25 regulatory battles that come with burying massive incentives in rate design.

26       Instead of burying incentives in rate design, the better course is to design cost-  
27 based rates and layer transparent incentives on top of those rates. Doing so permits the  
28 Commission to control the amount of incentives provided, target those incentives to

1 achieve specific goals, and reduce the incentives as costs go down. If APS customers are  
2 to incentivize battery storage, they are entitled to know exactly how much they are  
3 spending to do so, and shouldn't have to pay any more than they absolutely must to  
4 jump-start a new technology. APS's battery-incentive proposal would provide customers  
5 that transparency and control and should be adopted in place of EFCA's proposal.

6  
7 RESPECTFULLY SUBMITTED this 17th day of May 2017.

8  
9 By: \_\_\_\_\_

10 Thomas A. Loquvam

11 Thomas L. Mumaw

12 Melissa M. Krueger

Amanda Ho

Attorneys for Arizona Public Service Company

13 ORIGINAL and fifteen (15) copies  
14 of the foregoing filed this 17th day of  
15 May 2017, with:

16 Docket Control  
17 ARIZONA CORPORATION COMMISSION  
18 1200 West Washington Street  
19 Phoenix, Arizona 85007

20 COPY of the foregoing emailed / mailed  
21 this 17th day of May 2017, to:

22 Albert Acken  
23 Ryley Carlock & Applewhite  
24 One N. Central Ave., Ste 1200  
25 Phoenix, AZ 85004-4417

Ann-Marie Anderson  
Wright Welker & Paoule, PLC  
10429 South 51st Street., Suite 285  
Phoenix, AZ 85009

26 Brendon Baatz  
27 Manager  
28 ACEEE  
529 14th Street N.W., Suite 600  
Washington, DC 20045-1000

Stephen Baron  
Consultant  
J. Kennedy & Associates  
570 Colonial Park Drive, Suite 305  
Roswell, GA 30075



1 Patrick Black  
2 Attorney  
3 Fennemore Craig  
2394 East Camelback Road, Suite 600  
Phoenix, AZ 85016

4  
5 Bradley Carroll  
6 Assistant General Counsel, State  
7 Regulatory  
8 Tucson Electric Power Company  
88 East Broadway Blvd.  
Mail Stop HQE910  
P.O. Box 711  
Tucson, AZ 85702

9 John B. Coffman  
10 John B. Coffman, LLC  
11 871 Tuxedo Blvd.  
St. Louis, MO 63119

12  
13 Jim Downing  
14 PO Box 70  
Salome, AZ 85648

15  
16 Nicholas Enoch  
17 Attorney  
18 Lubin & Enoch, P.C.  
349 North Fourth Ave.  
Phoenix, AZ 85003

19  
20 Patricia Ferre  
21 P.O. Box 433  
Payson, AZ 85547

22  
23 Richard Gayer  
24 526 W. Wilshire Dr.  
Phoenix, Arizona 85003

Kurt Boehm  
Attorney  
BOEHM, KURTZ & LOWRY  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

Steve Chriss  
Senior Manager, Energy Regulatory  
Analysis  
Wal-Mart Stores  
2001 Southeast 10th Street  
Bentonville, AR 72716-5530

Jody Cohn  
Attorney  
Boehm, Kurtz & Lowry  
36 E. Seventh St., Suite 1510  
Cincinnati, OH 45202

Brittany L. DeLorenzo  
Corporate Counsel  
IO DATA CENTERS, LLC  
615 N. 48th St.  
Phoenix, AZ 85008

Greg Eisert  
Director Government Affairs Chairman  
Sun City Homeowners Association  
10401 W. Coggins Drive  
Sun City, AZ 85351

Giancarlo Estrada  
Kamper, Estrada and Simmons, LLP  
3030 N. Third St., Suite 770  
Phoenix, AZ 85012

Denis M. Fitzgibbons  
FITZGIBBONS LAW OFFICES, PLC  
P.O. Box 11208  
Casa Grande, AZ 85230

1	Al Gervenack	Jason D. Gellman
2	Robert Miller	Snell & Wilmer LLP
3	Property Owners & Residents	400 E. Van Buren Street, Suite 800
4	Association	Phoenix, AZ 85004
	13815 Camino del Sol	
	Sun City West, AZ 85372	
5	Elijah Abinah	Meghan Grabel
6	Director	Attorney for AIC
7	Utilities Division	Osborn Maledon, P.A.
8	Arizona Corporation Commission	2929 North Central Avenue
9	1200 W. Washington	Phoenix, AZ 85012
10	Phoenix, AZ 85007	
11	Tom Harris	Garry D. Hays
12	Chairman	Attorney for ASDA
13	Arizona Solar Energy Industries	Law Offices of Garry D. Hays, PC
14	Association	2198 E Camelback Rd, Suite 305
15	2122 W. Lone Cactus Dr. Suite 2	Phoenix, AZ 85016
16	Phoenix, AZ 85027	
17	Chris Hendrix	Kevin Hengehold
18	Director of Markets & Compliance	Energy Program Director
19	Wal-Mart Stores, Inc.	Arizona Community Action Association
20	2011 S.E. 10th Street	2700 n. 3rd St., Suite 3040
21	Bentonville, AR 72716	Phoenix, AZ 85004
22		
23	Kevin Higgins	Timothy Hogan
24	Energy Strategies, LLC	Attorney
25	215 South State Street, Suite 200	Arizona Center for Law in the Public
26	Salt Lake City, UT 84111	Interest
27		514 W. Roosevelt St.
28		Phoenix, AZ 85003
	Steve Jennings	Thomas A. Jerigan
	AARP	139 Barnes Drive, Suite 1
	16165 N. 83rd Ave, Suite 201	Tyndall AFB, FL 32403
	Peoria, AZ 85382	
	Teena Jibilian	Alan Kierman
	Assistant Chief Administrative Law	Director of Real Estate & Special
	Judge	Counsel
	Arizona Corporation Commission	IO Data Centers
	1200 W. Washington	615 N. 48th Street
	Phoenix, AZ 85007	Phoenix, AZ 85008

1 Briana Kobor  
2 Program Director  
3 Vote Solar  
360 22nd Street, Suite 730  
4 Oakland, CA 94612

5 Curt Ledford  
6 McDonald Carano Wilson, LLP  
2300 W. Sahara Ave., Suite 1200  
7 Las Vegas, NV 89102

8 Jay Moyes  
9 Moyes Sellers & Hendricks Ltd.  
10 1850 N. Central Ave., Suite 1100  
Phoenix, AZ 85004

11  
12 Michael Patten  
13 Attorney  
14 SNELL & WILMER L.L.P.  
15 One Arizona Center  
400 E. Van Buren Street, Suite 1900  
Phoenix, AZ 85004-2202

16 Ebony Payton  
17 139 Barnes Drive, Suite 1  
Tyndall AFB, FL 32403

18  
19 Daniel Pozefsky  
20 Chief Counsel  
21 RUCO  
1110 W. Washington, Suite 220  
22 Phoenix, AZ 85007

23 Pat Quinn  
24 AURA  
5521 E. Cholla St.  
25 Scottsdale, AZ 85254

Samuel L. Lofland  
Ryley Carlock & Applewhite  
One N. Central Ave., Ste 1200  
Phoenix, AZ 85004-4417

Craig Marks  
Attorney  
AURA  
10645 N. Tatum Blvd. Ste. 200-676  
Phoenix, AZ 85028

Jason Moyes  
Moyes Sellers & Hendricks Ltd.  
1850 N. Central Ave., Suite 1100  
Phoenix, AZ 85004

Greg Patterson  
Attorney  
Munger Chadwick  
916 West Adams Suite 3  
Phoenix, AZ 85007

Robert L. Pickels, Jr.  
Sedona City Attorney's Office  
102 Roadrunner Drive  
Sedona, AZ 86336

Steven Puck  
Director Government Affairs  
Sun City Homeowners Association  
10401 W. Coggins Drive  
Sun City, AZ 85351

Kaitlyn A. Redfield-Ortiz  
Lubin & Enoch, P.C.  
349 N. 4th Avenue  
Phoenix, AZ 85003



1 Court Rich  
2 Attorney  
3 Rose Law Group, pc  
7144 East Stetson Drive, Suite 300  
4 Scottsdale, AZ 85251

5 Lawrence Robertson, Jr.  
6 Attorney At Law  
210 West Continental Road  
Suite 216A  
7 Green Valley, AZ 85622

8 Jeff Schlegel  
9 SWEEP  
1167 W. Samalayuca Dr.  
10 Tucson, AZ 85704

11  
12 Sheryl A. Sweeney  
13 Ryley Carlock & Applewhite  
One N. Central Ave., Ste 1200  
14 Phoenix, AZ 85004-4417

15  
16 Emily A. Tornabene  
17 LUBIN & ENOCH, PC  
349 North Fourth Avenue  
18 Phoenix, AZ 85003

19  
20 Scott Wakefield  
21 Attorney  
Hienton & Curry, P.L.L.C.  
5045 N. 12th Street, Suite 110  
22 Phoenix, AZ 85014-3302

23  
24 Anthony Wanger  
25 President  
IO Data Centers  
615 N. 48th Street  
26 Phoenix, AZ 85008

Rob Robbins  
President  
Property Owners & Resident  
Association  
13815 Camino del Sol  
Sun City West, AZ 85372

Timothy Sabo  
Snell & Wilmer  
400 East Van Buren  
Suite 1900  
Phoenix, AZ 85004

Thomas E. Stewart  
General Manager  
Granite Creek Power & Gas LLC  
5316 East Voltaire Avenue  
Scottsdale, AZ 85254-3643

Gregory W. Tillman  
Senior Manager, Energy Regulatory  
Analysis  
Wal-Mart Stores, Inc.  
2011 S.E. 10<sup>th</sup> Street  
Bentonville, AR 72716

Andy Kvesic  
Director  
Legal Division  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Paul J. Walker  
Executive Director  
ConservAmerica  
971 South Centerville Road  
PMB 139  
Sturgis, MI 49091

Charles Wesselhoft  
Deputy County Attorney  
Pima County  
32 North Stone Ave., Suite 2100  
Tucson, AZ 85701

1 Karen White  
2 Attorney  
3 Air Force Utility Law Field Support  
4 Center  
5 AFLOA/JACL-ULFSC, 139 Barnes Dr.  
6 Tyndall AFB, FL 32403

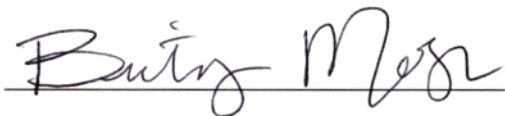
Ken Wilson  
Western Resource Advocates  
2260 Baseline Road, Suite 200  
Boulder, CO 80302

5 Warren Woodward  
6 200 Sierra Road  
7 Sedona, AZ 86336

Gary Yaquinto  
President & CEO  
Arizona Investment Council  
2100 N. Central Avenue, Suite 210  
Phoenix, AZ 85004

8 Ellen Zuckerman  
9 Senior Associate  
10 4231 E. Catalina Drive  
11 Phoenix, AZ 85018

Cynthia Zwick  
2700 N. 3rd Street, Suite 3040  
Phoenix, AZ 85004

12  
13   
14